



NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**EMULATING EXCELLENCE: FINANCIAL
MANAGEMENT LESSONS FOR THE NAVY FROM THE
EXPERIENCES OF THE CORPORATION FOR NATIONAL
AND COMMUNITY SERVICE**

by

Erik R. Naley

December 2007

Thesis Advisor:
Associate Advisor:

Philip J. Candreva
Cynthia L. King

Approved for public release; distribution is unlimited

THIS PAGE INTENTIONALLY LEFT BLANK

REPORT DOCUMENTATION PAGE			<i>Form Approved OMB No. 0704-0188</i>	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
1. AGENCY USE ONLY (Leave blank)		2. REPORT DATE December 2007	3. REPORT TYPE AND DATES COVERED Master's Thesis	
4. TITLE AND SUBTITLE Emulating Excellence: Financial Management Lessons for the Navy from the Experiences of the Corporation for National and Community Service.			5. FUNDING NUMBERS	
6. AUTHOR(S) LCDR Erik R. Naley				
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000			8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A			10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.				
12a. DISTRIBUTION / AVAILABILITY STATEMENT Approved for public release; distribution is unlimited			12b. DISTRIBUTION CODE	
13. ABSTRACT (maximum 200 words) <p>The purpose of this thesis is to find lessons for Navy business transformation efforts to ensure that the planned changes persist. Over the years many best practices have been adopted from private industry. Some of these provided lasting change, but many did not. The organization and motivation of private industry and the Navy are very different and perhaps this led to problems implementing these best practices.</p> <p>This thesis analyzed successful financial management transformation at a smaller government entity. The budgetary and financial pressures faced by another government entity are more similar to the Navy's problems than those faced in private industry. The successful transformation was then analyzed through a change persistence model.</p> <p>This research found that the Navy has a sound business transformation plan that is centered on reengineering processes and systems. However, the plan needs to be supplemented with teaching and socializing interventions to ensure that buy-in is achieved across the enterprise.</p>				
14. SUBJECT TERMS Best Practices, Financial Management, Lessons Learned, Change Management, Transformation.			15. NUMBER OF PAGES 127	
			16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UU	

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)
Prescribed by ANSI Std. Z39-18

THIS PAGE INTENTIONALLY LEFT BLANK

Approved for public release; distribution is unlimited

**EMULATING EXCELLENCE: FINANCIAL MANAGEMENT LESSONS FOR
THE NAVY FROM THE EXPERIENCES OF THE CORPORATION FOR
NATIONAL AND COMMUNITY SERVICE**

Erik R. Naley
Lieutenant Commander, United States Navy
B.A., University of Minnesota, 1996

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

from the

**NAVAL POSTGRADUATE SCHOOL
December 2007**

Author: Erik R. Naley

Approved by: Philip J. Candreva
Thesis Advisor

Cynthia L. King
Associate Advisor

Dean Robert Beck
Dean, Graduate School of Business and Public Policy

THIS PAGE INTENTIONALLY LEFT BLANK

ABSTRACT

The purpose of this thesis is to find lessons for Navy business transformation efforts to ensure that the planned changes persist. Over the years many best practices have been adopted from private industry. Some of these provided lasting change, but many did not. The organization and motivation of private industry and the Navy are very different and perhaps this led to problems implementing these best practices.

This thesis analyzed successful financial management transformation at a smaller government entity. The budgetary and financial pressures faced by another government entity are more similar to the Navy's problems than those faced in private industry. The successful transformation was then analyzed through a change persistence model.

This research found that the Navy has a sound business transformation plan that is centered on reengineering processes and systems. However, the plan needs to be supplemented with teaching and socializing interventions to ensure that buy-in is achieved across the enterprise.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	PURPOSE.....	1
B.	RESEARCH QUESTIONS.....	1
C.	METHODOLOGY	2
D.	ORGANIZATION	5
E.	BENEFITS AND LIMITATIONS OF THE THESIS	6
II.	LITERATURE REVIEW	9
A.	INTRODUCTION.....	9
B.	THE ANTI-DEFICIENCY ACT	9
C.	DOD MANAGEMENT REFORMS	10
D.	NAVY BUSINESS REFORM INITIATIVES.....	15
E.	BUSINESS TRANSFORMATION PROGRESS.....	16
F.	CHANGE PERSISTENCE MODEL	18
III.	THE EXPERIENCES OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AND THE NATIONAL SERVICE TRUST.....	25
A.	BACKGROUND	25
1.	The Corporation for National and Community Service	25
2.	Americorps and the National Service Trust.....	26
B.	THE CORPORATION’S ANTI-DEFICIENCY ACT VIOLATION.....	30
1.	The Trust Cannot Support Enrolled Members.....	30
2.	Diverging Legal Opinions.....	33
C.	OUTSIDE ASSISTANCE	35
1.	Legislative Response	35
2.	The President Reinforces the Act	36
D.	OFFICIAL FINDINGS	37
1.	Office of the Inspector General Findings and Recommendations	37
2.	GAO Findings and Recommendations	39
3.	National Academy of Public Administration Findings and Recommendations	40
E.	THE CORPORATION’S RESPONSES.....	43
IV.	ANALYSIS OF THE CORPORATION’S CHANGES	55
A.	CHANGE INTERVENTION STYLES UTILIZED BY THE CORPORATION	55
1.	Commanding Intervention.....	56
2.	Engineering Intervention	57
3.	Teaching Intervention	59
4.	Socializing Intervention.....	60
B.	TIMING, SEQUENCING AND RHYTHM OF INTERVENTION STYLES	62

C.	BEGINNING CHANGE WITH A COMMANDING INTERVENTION IN GOVERNMENT ENTITIES	64
V.	LESSONS FOR THE DEPARTMENT OF THE NAVY FINANCIAL MANAGEMENT COMMUNITY	67
A.	THE NAVY’S COMMANDING INTERVENTION	68
B.	THE NAVY’S ENGINEERING INTERVENTION	70
C.	THE NAVY’S TEACHING INTERVENTION	73
D.	THE NAVY’S SOCIALIZING INTERVENTION	75
E.	TIMING, SEQUENCING AND PACING THE NAVY’S CHANGES	79
VI.	FINDINGS AND RECOMMENDATIONS	81
A.	FINDINGS	81
B.	RECOMMENDATIONS	84
C.	AREAS FOR FUTURE RESEARCH	87
	APPENDIX A	89
	APPENDIX B	91
	APPENDIX C	93
	APPENDIX D	95
	APPENDIX E	97
	APPENDIX F	99
	APPENDIX G	103
	LIST OF REFERENCES	105
	INITIAL DISTRIBUTION LIST	111

LIST OF FIGURES

Figure 1.	Enterprise-Level Transformation Governance (From DoD September 2007 ETP)	13
Figure 2.	Core Business Transformation Elements (From DoD September 2007 ETP)	18
Figure 3.	Timeline of the Experiences of the Corporation.....	42

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF TABLES

Table 1.	Temporal Assumptions of Change Intervention Ideal Types (After Huy, 2001)	22
Table 2.	Path to Auditability (After Candreva, 2004).....	30

THIS PAGE INTENTIONALLY LEFT BLANK

ACKNOWLEDGMENTS

I would like to thank Commander Philip J. Candreva, USN (Ret.) and Professor Cynthia King, my thesis advisors. The advice, discussions and multiple revisions significantly contributed to my learning experience.

I would like to thank my parents, Lowell and Linda, for their steadfast support over the years. Their many sacrifices for me are very much appreciated. I could not have asked for better parents, mentors and friends.

Most importantly, I would like to thank my wife, Kirstin, and my daughters Ella and Kamin. They have given up a normal life to ensure that I could do a job that I love. Their love and support mean the world to me; I am truly blessed to have them in my life.

THIS PAGE INTENTIONALLY LEFT BLANK

I. INTRODUCTION

A. PURPOSE

The objective of this thesis is to conduct archival research to identify the financial management, budgeting and internal control changes that were effected by the Corporation for National and Community Service (hereon “The Corporation”) after the response to an Anti-Deficiency Act (ADA) violation transformed the Corporation into a better managed and more respected government agency. Their actions will be analyzed to determine if there are lessons that can be applied to the Department of the Navy’s financial management practices.

B. RESEARCH QUESTIONS

The Navy has adopted several management reform initiatives from private industry. These initiatives include the Planning, Programming, Budgeting and Execution System, Total Quality Management and Lean Six Sigma. Each of these initiatives has met with varying levels of success as they were imposed on the complex structure of the Department of Defense. Similarly, each Secretary of Defense from Forrestal to Rumsfeld has introduced reform initiatives; some of these reforms persisted, but many did not.¹ It may be that because many of these reform agendas originated in private industry, they do not generalize to the challenges of defense management. Congressional pressures, complex and sprawling organizational structures, external budget pressures such as increasing mandatory spending, the peculiarities of federal appropriation laws, frequent leadership turnover and the realities of increased operations due to conflict can derail reforms imported from private industry. By examining the transformational success in financial management of another federal agency, some of the challenges faced in adopting private industry reforms may be reduced.

¹ Daniel Francis and Robin Walther, “A Comparative History of Department of Defense Management Reform from 1947 to 2005,” MBA Professional Project, Center for Defense Management Reform, Naval Postgraduate School, Monterey, CA, December 2006.

For example, the Corporation for National and Community Service faced challenges similar to what the Navy faces in financial management, budgeting and internal controls. The Corporation's 2002 ADA violation was a symptom of more widespread financial management problems at the Corporation. The Navy occasionally has ADA violations which can be viewed as a symptom of broader financial management problems. The financial management problems at the Corporation occurred in an environment similar to that faced in the Navy: attempts to adopt private-industry best practices, congressional pressures and oversight, an organization that is not universally loved by outsiders, a management team coordinating an all volunteer force that turns over rapidly, and planning for an uncertain financial future. There are parallels in what led to the crisis in the Corporation and the financial management problems that face the Navy today: coordination of accounting systems, upgrading legacy IT systems and making those systems communicate effectively, complex budgeting systems and uncertain costs, rapid leadership turnover, and a lack of measurable performance metrics or metrics that do not measure what was intended.

The research questions are as follows:

Research Question 1: What were the financial management, budget and internal control problems that led to the Corporation's ADA violation and program disruption?

Research Question 2: What financial management, budget and internal control changes were implemented by the Corporation to correct those problems?

Research Question 3: What was it about these changes that made them persist?

Research Question 4: What lessons can be applied to Navy financial management to generate similar positive effects?

C. METHODOLOGY

There is not a way to create an experiment that examines management change within the Department of the Navy, because the process is continuous and the Department is too large. According to Robert Yin, case studies are the preferred strategy "when the investigator has little control over events, and when the focus is on a

contemporary phenomenon within some real-life context.”² By analyzing the experiences of the Corporation during and after the ADA violation there will likely be more variables than data points that led to the positive change effected. As Yin describes, a case study can cope with “...a technically distinctive situation where there will be more variables of interest than data points.”³ By examining the experiences of the Corporation through a framework of management change theory, this thesis will attempt to find lessons for the Navy financial management community and its efforts to transform for the future.

To find lessons for the DoD and Navy business transformation efforts this thesis utilized the case method. Many scholars in the hard sciences stereotype the case method as weak due to its qualitative nature. However, the case method is extensively used in the social sciences, including the fields of management sciences and public policy. A case study is appropriate for this study because it is designed to answer research questions that begin with what, how and why, much like the research questions posed above. The case study also does not require behavioral control of events, and because this thesis was conducted using archival research and theory on successful transformation, there was no control over those events. Finally, the case study focuses on contemporary events, and many of the change efforts within DoD are continuous and happening now. Additionally, a focus on contemporary events serves another goal of this thesis; to help those charged with the change process make those changes persist.

Why the case method? “A *case study in an empirical inquiry that*: investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”⁴ Analyzing success in another government entity may provide valuable lessons for the Navy. There have been many studies of DoD that intended to improve business practices. Most of these studies were aimed at adopting best practices from private industry and applying them to the

² Robert Yin, *Case Study Research*, Third Edition, Volume 5, Thousand Oaks, Ca : Sage Publications, 2004, 7.

³ Ibid, 13.

⁴ Ibid, 13.

DoD. However, many of the best practices from private industry were created using a profit driven approach, the Navy does not generate a profit. Federal fiscal law and the complexities of an executive branch agency complicate the change process. While best practices from companies like General Electric and Toyota may provide short-term benefits to the Navy, they may not persist due to differences in operating environment.

Why this case? While significantly smaller than the DoD and Navy, the Corporation for National and Community Service faces similar problems in financial management that are found in the Navy. Both are required to uphold federal fiscal law and both consist of an all volunteer force. Federal entities are required to comply with the CFO Act of 1990 and the Government Results and Performance Act of 1994, something unique to federal financial management. This thesis recognizes that the size differences may not be scaleable. However, the process of teaching and socializing a change process may be applicable. Many of the best practices adopted from private industry are from organizations much smaller than the Navy and do not have the restrictions imposed by federal fiscal law. By analyzing the change process of an organization that is more similar to the Navy than a private corporation, some of the barriers to change may be broken down.

This thesis was generated using archival data gathered from the Government Accountability Office (GAO), the Corporation's financial reports, the Corporation's Inspector General, Congressional testimony, previous research conducted on reform processes, government documents, Navy documents and media reports.

The qualitative nature of the data does not lend itself to standard statistical analysis. Instead, the data were analyzed through a change management framework called "Time, Temporal Capability, and Planned Change" written by Quy Nguyen Huy. Specifically the framework is used to analyze the change processes that were implemented by the Corporation to effect change in financial management, budgeting and internal controls. These change processes were implemented over time on a continuum of leadership styles. This framework offers seven propositions regarding planned change, such as the change that the Corporation implemented after its 2002 ADA violation and the change in financial management that the Navy desires over the next 10

years. The framework takes into account the external pressures faced by organizations, re-engineering processes, training and socializing change. This framework is then used to analyze the Navy's business reform efforts and suggested improvements are made based on the Corporation's experience.

D. ORGANIZATION

Chapter II provides a background of the Anti-Deficiency Act and a summary of the Navy's ADA violations in recent history. Chapter II then reviews previous work on Department of Defense change management and change reforms. Consideration is given to past trends and current initiatives in the area of financial management. The review includes Defense-wide business transformation efforts and then looks at specific Navy efforts in the area. Then the thesis examines the perceived success of these initiatives by summarizing several GAO reports that deal specifically with financial management and business reform. Finally, Huy's framework for analyzing change is introduced.

The narrative experience of the Corporation is presented in Chapter III. The data were drawn from the GAO, financial reports, IG reports, Congressional testimony and media reports. The data are presented as a historical overview of the experiences during and after the 2002 ADA violation. The focus of the narrative is on areas within the Corporation that deal with financial management, budgeting and internal controls. This limit on scope was intentional to generate the most salient lessons that can be applied to the Navy's financial management community.

Chapter IV presents an analysis of the experiences of the Corporation. Specifically, the data are analyzed using Huy's framework to determine how the change processes that were implemented to effect change in financial management, budgeting and internal controls persisted. Chapter IV examines the experiences of the Corporation after its ADA violation and seeks to understand the changes it made to become a respected government agency in the area of financial management. This chapter generates the lessons that can be applied to the Navy financial management community.

Chapter V presents an analysis of the Navy financial management community and its recent attempts to transform business practices. The cornerstone of the Navy's

transformation plan is Sea Enterprise. Sea Enterprise is the business enabler for Sea Power-21 and guides the financial management community in its efforts to become more efficient and effective. After this analysis the lessons learned from the Corporation are applied to the Navy's efforts to generate the same positive effects. The analysis includes applications to the financial management community, links to Sea Enterprise, links to Financial Improvement and Audit Readiness Plan (FIAR), links to the Business Transformation Agency (BTA), links to Navy Enterprise Resource Planning (ERP) and links to Navy financial and internal control systems.

Chapter VI presents findings and recommendations. This chapter also provides recommendations for further consideration.

E. BENEFITS AND LIMITATIONS OF THE THESIS

In a time of expanding mandatory spending, increased operations and increased Congressional scrutiny of Department of Defense financial management, the Department of the Navy has a reform agenda to improve the efficiency of financial management practices. Similar external pressures are felt by other federal agencies. Government financial management reform has been at the forefront since passage of the Chief Financial Officer Act of 1990, the Government Performance and Results Act of 1993 and the President's Management Agenda in 2002. Many of the reforms initiated by the Navy have been taken from private industry and several of them have not met expectations. The size and complexity of the Navy limit change processes that may have worked at a smaller private organization. There are lessons that can be applied to the Navy by analyzing another government agency that faces internal and external pressures similar to those that the Navy faces.

By analyzing an agency that has successfully recovered from the same types of problems that challenge Navy financial managers, a roadmap for future success could be generated. The parallels that exist between the problems with the Corporation's financial management and the Navy make this a rich case by analogy. Just as the Corporation started from a position of weakness, the financial management of the Navy, even its plan to reform its financial management system has been labeled as weak by GAO, this is

persistent across DoD.⁵ The Corporation overcame its weakness in a period of five years; determining how this was accomplished can be valuable as the Navy moves forward. This work will provide a reference for financial management reform for future reform planning and implementation.

This thesis has several limitations. By analyzing the experiences of only one other government agency, there exists the possibility that the changes made in the Corporation were a singular event and cannot be applied to other agencies. The Corporation is also smaller than the Navy and its reforms may not scale easily. Another limitation is that the data were collected from archival sources available in the public domain, and within those archival sources, there are references to internal Corporation documents that were not available for study. These documents may contain key facts regarding the change implementation; therefore assumptions on some of the processes were made by inference. However, there are many more similarities to the financial management problems faced by the Corporation and the Navy than there are differences.

⁵ Government Accountability Office, "Further Actions are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges," GAO-05-140T, available from www.gao.gov. Accessed November 16, 2007.

THIS PAGE INTENTIONALLY LEFT BLANK

II. LITERATURE REVIEW

A. INTRODUCTION

This literature review is presented in five sections. The first discusses how ADA violations, as a symptom for underlying financial management and internal control weaknesses, negatively impact the Navy's ability to meet its transformation goals. The second section focuses on Defense-wide business transformation initiatives. The third section outlines the Navy's general reform agenda. The fourth section provides a synopsis of GAO reports that have studied the progress and success of DoD business transformation plans. The final section is devoted to how organizations effect positive transformational change.

B. THE ANTI-DEFICIENCY ACT

The Anti-Deficiency Act (ADA) is encapsulated in Title 31 U.S.C. § 1341, 1342 and 1517. The Act is one of the most powerful tools that Congress uses to regulate its constitutional power of the purse. Section 1341 (a) (1) (A) prohibits making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.⁶ Section 1341 (a) (1) (B) prohibits involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law.⁷ Section 1342 prohibits accepting voluntary services for the United States, or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property.⁸ Section 1517 (a) prohibits making obligations or expenditures in excess of an apportionment or reappropriation, or in excess of the amount permitted by agency regulations.⁹

⁶ Title 31 U.S.C. § 1341, 1342, 1517.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

Violations of the ADA are subject to both fiscal and penal sanctions.¹⁰ The ADA is the only one of the Title 31 U.S.C. fiscal statutes that prescribes both types of penalties.¹¹ When an agency determines that it has violated the Act it must immediately report the violation to the President, the President of the Senate, the Speaker of the House and the Director of the Office of Management and Budget. This report includes the facts related to the violation and actions taken to remedy the violation. When needed, the agency must also request a supplemental appropriation to cover the deficiency.

In 2005, GAO created a repository for all ADA violation reports. Records are available for fiscal years 2005 and 2006. In that time, the Department of the Navy incurred 10 violations of the ADA. In fiscal year 2005, the Navy had six violations of ranging from \$79,419.00 to \$21,800,000.00. In fiscal year 2006 the Navy had four ADA violations ranging from \$67,000.00 to \$561,906.87. These violations came from several different appropriations including Operations and Maintenance, Navy; Navy Defense Working Capital Fund; Military Personnel, Marine Corps; and Research, Development, Test and Evaluation, Navy. For fiscal years 2005 and 2006 the DoD accounted for 77 percent of all ADA violations.

ADA violations erode Congress' confidence in the financial management of the Department. History has shown that ADA violations can lead to Congressional rescissions, increased oversight, increased audits, reduced readiness and reduced budgetary flexibility. Although ADA violations are a mere symptom, they are a good proxy for determining the financial management health of a government entity when other factors such as auditability and congressionally mandated GAO reports are taken into account.

C. DOD MANAGEMENT REFORMS

Francis and Walther found that management reform has been almost continuous within the DoD for the past six decades. Management reform has led to exhaustive

¹⁰ Government Accountability Office, "Antideficiency Act Background," available from www.gao.gov/ada/antideficiency.htm, accessed August 3, 2007.

¹¹ Ibid.

efforts and nearly continuous debate on these efforts for that same timeframe.¹² Proponents contend that the benefits of reform outweigh the costs. Opponents feel that the change is marginal at best and efforts do not transition between administrations, wasting precious time and money that could be spent on operations. Their findings also suggest that future reforms will be new versions of the same marginal change that has been ongoing since 1947, but contain the management terminology currently in favor.¹³ The initiatives studied by Francis and Walther covered all aspects of management reform. Financial management reform, as a subset of overall reform, has been an issue at the forefront in more recent history.

Financial management, budget and accounting reform have been particularly noteworthy in the DoD for the past two decades. The Chief Financial Officers Act (CFO Act) of 1990 placed significant pressure on all federal agencies to achieve unqualified audits of their financial statements. Since then, DoD is one of a handful of federal entities that has not achieved a clean audit opinion. In 1993, Congress passed the Government Performance and Results Act (GPRA); GPRA has been the driving force behind performance based management reform. The current era business transformation efforts can be directly tied to the CFO Act, GPRA and several Presidential initiatives.

In the current era, the Defense Transformation Act for the 21st Century (DTA) was the Bush administration and Secretary of Defense Donald Rumsfeld's vision for the transformation of the Department's management, financial management and budgeting processes. However, only portions of the DTA were passed by Congress in the Defense Authorization Act of 2003. Congress felt that sections of the DTA gave DoD too much discretionary power and therefore limited the scope of the Act.¹⁴ In a brief to the House Government Reform Committee, Deputy Secretary of Defense Paul Wolfowitz, acknowledged that by 2003 the DoD was reducing management and headquarters staff by 11 percent and that a new financial management system was being implemented to

¹² Francis and Walther, 2006.

¹³ Ibid.

¹⁴ Jerry McCaffery and L.R. Jones, *Budgeting and Financial Management for National Defense*, Information Age Publishing: Greenwich, CT, 2004.

integrate all DoD financial systems into a single system.¹⁵ Deputy Secretary Wolfowitz then added that internal changes alone would not provide the sweeping changes that DoD required to transform its business practices, it needed legislative relief. The DoD also needed a vehicle to implement the changes directed by DTA; and this vehicle would evolve into the Business Transformation Agency (BTA).

In July 2001, Secretary Rumsfeld signed a memorandum establishing the Financial Management Modernization Program (FMMP). The FMMP became the Business Management Modernization Program (BMMP) in May 2003 by a memorandum signed by the Under Secretary for Defense (Comptroller); this shift reflected the Department's focus on changing business processes not just financial practices. In October 2005, the Under Secretary for Defense ((Acquisition, Technology and Logistics) USD AT&L) signed a memorandum establishing the BTA, the BTA replaced BMMP.

According to the BTA's website, the agency was established to "enhance support of the warfighter and provide better financial accountability to the American people."¹⁶ The BTA is a separate DoD entity that reports directly to the USD (AT&L). The goals of the BTA are to provide accountability to the taxpayer by methodically improving the DoD's business processes, systems and investment governance. To achieve these goals, the BTA produced the Enterprise Transition Plan (ETP), "an integrated and executable roadmap aligned to the Business Enterprise Architecture (BEA). The ETP and BEA enable the Department to transform business operations to achieve improved warfighter support while enabling financial accountability across the Department of Defense."¹⁷ The Defense Business Systems Management Committee (DBSMC) oversees DoD-wide enterprise transformation efforts. The relationships between the BTA, DBSMC, Office of the Secretary of Defense Staff and the services can be seen in Figure 1 below.

¹⁵ McCaffery and Jones, 2004.

¹⁶ Business Transformation Agency, "FAQs—The BTA," available from www.dod.mil/bta, accessed September 18, 2007.

¹⁷ Ibid.

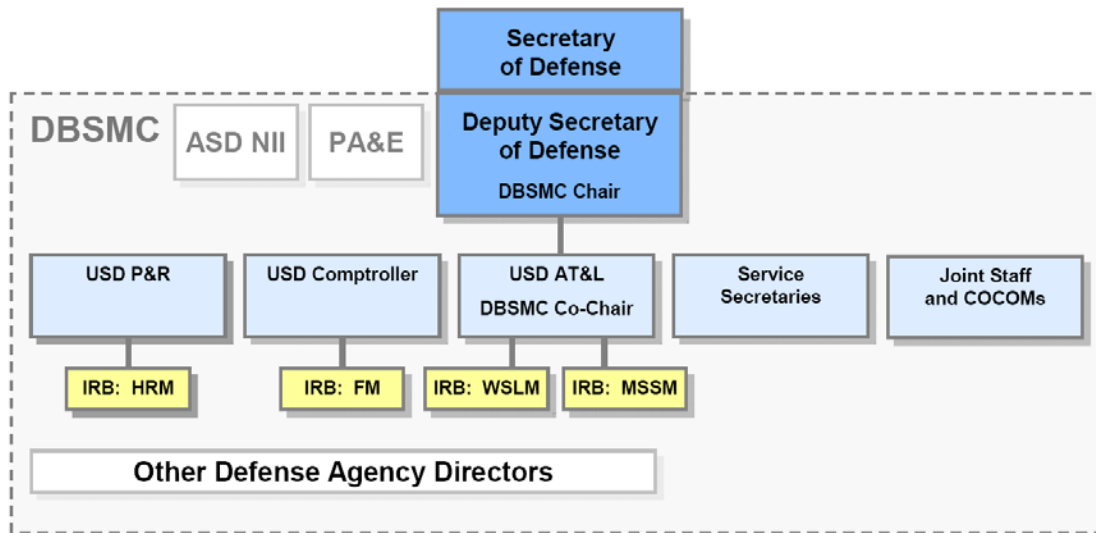


Figure 1. Enterprise-Level Transformation Governance (From DoD September 2007 ETP)

The BTA encourages collaboration across the services to take advantage of centralized visibility of investments in enterprise-wide business transformation efforts. The BTA recognizes that this is not the first business transformation initiative in DoD, but contends that the BTA is different in that it recognizes that sweeping, immediate changes cannot be made in an organization as complex as DoD. The BTA intends to focus on a clear set of priorities driven by customer needs; these priorities will then be driven from the top. One of the early business transformation goals was to achieve an unqualified audit opinion on DoD's financial statement by 2007, as it became clear that this goal was unattainable the DoD created the Financial Improvement and Audit Readiness (FIAR) Plan.

In December 2005, the DoD published the FIAR Plan, the vision for improving financial management. A report on the progress of the FIAR Plan is submitted to the Office of Management and Budget and Congress two times per year. According to the USD ((Comptroller) USD (C)), "Improvement efforts proceed along two tracks: 1) those that improve the accuracy, timeliness, and availability of financial information; and 2)

those that help the Department achieve audit readiness.”¹⁸ The USD (C) recognizes that in order to achieve financial management transformation, the FIAR Plan must be integrated with other transformation efforts. In order to meet several goals of the FIAR Plan, goals of the ETP must be met first. Therefore, the Department’s Financial Improvement Plans (FIP) have been integrated into the ETP. In cases where financial management improvements depend on success of ETP initiatives, milestones from ETP are interlinked and specified within the milestones laid out in the FIP. The FIAR Plan also incorporates the Office of Management and Budget (OMB) directives on internal controls contained in OMB circular A-123. Specified internal control activities are embedded in milestones in the FIAR Plan and the FIPs.¹⁹

To date, only seven of nineteen defense reporting entities have achieved a clean audit opinion, but progress has been made; a few years ago only two were unqualified.²⁰ The release of the 2006 FIAR Plan pushed the goal of department-wide clean financial statements to the year 2017. In July 2007, the USD (C) issued a memorandum revising the audit readiness strategy. The revised strategy recognizes the enterprise-wide, horizontal elements of the financial environment; identifies audit readiness segments for the military services and components; and revised business rules to sustain incremental financial improvement while limiting audit engagements to those that only cover full financial statement audits.²¹

As a component of DoD, the Navy also recognized that business practice reform was needed to be successful in the future. Its plan, Sea Power-21, is consistent with the goals of the DTA, the FMMP, BMMP, FIAR and BTA. Sea Power-21 is the Navy’s

¹⁸ Under Secretary of Defense (Comptroller), “Update on Financial Improvement and Audit Readiness Activities,” Memorandum, July 13, 2007, 1.

¹⁹ Department of Defense, “Financial Improvement and Audit Readiness Plan,” September 30, 2006. Available from http://www.defenselink.mil/comptroller/FIAR/documents/FIAR_Plan_Sept_2006.pdf, accessed September 25, 2007.

²⁰ Ibid.

²¹ Under Secretary of Defense (Comptroller), “Update on Financial Improvement and Audit Readiness Activities,” Memorandum, July 13, 2007, 6.

overarching transformation effort designed to meet future threats; Sea Enterprise is the business enabler for Sea Power-21.

D. NAVY BUSINESS REFORM INITIATIVES

Admiral Vern Clark published an article titled “Sea Power-21: Projecting Decisive Joint Capabilities,” in the October 2002 issue of *Proceedings*. In this article, Admiral Clark described Sea Power-21 as the Navy’s vision to “align, organize, integrate, and transform our Navy to meet the challenges that lie ahead.”²² Sea Power-21 is built around Sea Strike, Sea Shield and Sea Basing. Sea Strike expands power projection by incorporating networked sensors, combat systems and sailors to enhance the offensive power of naval forces. Sea Shield is based on the idea of global defensive assurance and access to the littorals. Sea Basing provides support to the joint force by employing mobile and secure sovereign platforms operating from the sea.²³

The vision of Sea Power-21 cannot be met using current management and financial policies. According to the BTA, the Navy risks becoming undersized due to frequent shifts of funds intended for recapitalization into operational accounts. The average age of Navy ships and aircraft continue to rise. Surface combatants have an average age of 15.2 years, submarines 16.5 years, logistics ships 20.5 years and aircraft 15.4 years.²⁴

According to Admiral Clark, Sea Enterprise is the key to finding and allocating resources to recapitalize the Navy.²⁵ The goals of Sea Enterprise are to improve organizational alignment, refine requirements and reinvest savings to recapitalize the fleet. By leveraging lessons from the business revolution, Sea Enterprise hopes to “reduce overhead, streamline processes, substitute technology for manpower, and create

²² Admiral Vern Clark, “Sea Power 21: Projecting Decisive Joint Capabilities,” *Proceedings*, October 2002. Available from www.navy.mil/navydata/cno/proceedings.html, accessed September 18, 2007.

²³ Ibid.

²⁴ Business Transformation Agency, “Case in Point: Sea Enterprise,” available from www.defenselink.mil/dbt/cip_sea-enterprise.html, accessed September 18, 2007.

²⁵ Clark, 12.

incentives for positive change.”²⁶ The Navy has targeted cost reductions similar to industry standards of five to ten percent.²⁷ To meet this goal, the BTA lists eight areas that the Navy must improve: “leverage technology to improve performance and minimize manpower costs; promote competition and reward innovation and efficiency; challenge barriers to innovation; divest non-core, under-performing, or unnecessary products, services, and production capacity, especially ashore; merge redundant efforts to become lean and agile; minimize acquisition and lifecycle costs; maximize in-service capital equipment use; and challenge every assumption, cost, and requirement.”²⁸

E. BUSINESS TRANSFORMATION PROGRESS

GAO has reported that DoD faces many problems relating to business operations. DoD has been designated as high-risk in eight areas: approach to business transformation, personnel security clearance program, support infrastructure management, business systems modernization, financial management, weapon systems acquisition, contract management and supply chain management. Along with six government-wide high-risk areas, DoD is responsible for 14 of 25 high-risk areas. Only three are germane to this thesis: approach to transformation (designated in 2005), business system modernization (designated in 1995) and financial management (designated in 1995).²⁹

GAO has also reported that “DOD’s pervasive financial and business management problems adversely affect the economy, efficiency, and effectiveness of its operations...and left it vulnerable to billions of dollars of fraud, waste, and abuse annually, at a time of increasing fiscal constraint.”³⁰ GAO notes that DoD spends billions of dollars annually to operate, maintain and modernize its business systems, yet GAO continues to find numerous systems that are behind schedule and that do not meet

²⁶ Clark, 2002.

²⁷ BTA, “Case in Point: Sea Enterprise,” 1.

²⁸ Ibid, 1.

²⁹ Government Accountability Office, “Key Elements Needed to Successfully Transform DOD Business Operations,” GAO-05-629T, available from www.gao.gov, accessed September 01, 2007.

³⁰ Government Accountability Office, “Sustained Leadership is Critical to Effective Financial and Business Management Transformation,” GAO-06-1006T, available from www.gao.gov, accessed September 01, 2007.

the promised capability.³¹ To overcome these problems GAO recommended that the DoD develop and implement a comprehensive business transformation plan and create the position of Chief Management Officer (CMO) within the DoD. DoD has resisted creating the position of CMO, instead focusing transformation efforts on BTA and the FIAR Plan. In September 2007, the Secretary of Defense designated the Deputy Secretary of Defense as CMO. It is not yet clear whether this designation will involve positive change because the Deputy Secretary of Defense has numerous other priorities that may eclipse his role as CMO.

GAO recognizes the positive steps taken by DoD in the creation of the BTA, but notes that the BTA appears to be overly focused on business system modernization, limiting the scope of the transformation. GAO notes that efforts in the areas of planning, management, structures and processes related to all business areas need investigation.³² In November 2006, GAO noted that DoD has made progress in transforming its business operations, but that a comprehensive, enterprise-wide approach to its transformation was lacking.³³ The BTA has since established several core business transformation elements that it feels are required for success. These elements can be seen in the figure below.

³¹ GAO-06-1006T.

³² Government Accountability Office, "Foundational Steps Being Taken to Manage DOD Business Systems Modernizations, but Much Remains to be Accomplished to Effect True Business Transformation," GAO-06-234T, available from www.gao.gov, accessed September 01, 2007.

³³ Government Accountability Office, "A Comprehensive Plan, Integrated Leadership, and Sustained Effort Are Needed to Assure Success," GAO-07-229T, available from www.gao.gov, accessed September 01, 2007.

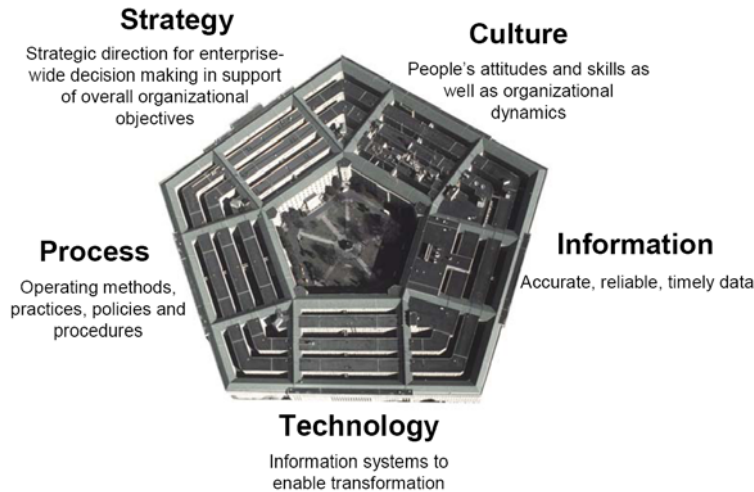


Figure 2. Core Business Transformation Elements (From DoD September 2007 ETP)

Both DoD and the DON recognize that financial management reform is needed and GAO has found that the approach to reform is not meeting current goals. By analyzing a successful reform in another government entity through an academic change persistence model there may be lessons that can be applied to DoD and DON change agendas.

F. CHANGE PERSISTENCE MODEL

Business transformation is about organizational change. There has been much research in the area of planned organizational change. To analyze the success of planned change this thesis uses a change framework proposed by Quy Nguyen Huy in an article titled “Time, Temporal Capability, and Planned Change.” This framework defines four ideal types of change intervention: commanding intervention, engineering intervention, teaching intervention and socializing intervention.³⁴ This model was chosen because it incorporates both the content of the change and the sequencing of the planned change itself. The model recognizes that large scale change in complex organizations can only be made when many elements are altered and that different methods of achieving specific change must be used to generate change across complex organizations. This requires the

³⁴ Quy Nguyen Huy, “Time, Temporal Capability, and Planned Change,” *Academy of Management. The Academy of Management Review*, October 2001; 26, 4.

change agent to sequence the incremental changes temporally and apply the correct intervention type to each planned change.³⁵ Several other authors have used Huy's model in describing change. This model has been applied to widely varying topics such as: frameworks for selecting change strategies³⁶, research on innovation in organizations³⁷, eGovernment and structural reform³⁸, the pace, sequence, and linearity of radical change³⁹, and the rhythm of change⁴⁰.

There have been several articles published that deal specifically with transformation and change. Many of these articles pose theories that attempt to quantify a process that is more qualitative in nature. Many of these articles propose a laundry list of activities that management must do in order to achieve the desired results, whether those results be increased sales, streamlined processes, or reduced costs. There are several studies that show how businesses and government can benefit from process improvements generated from Lean Six Sigma projects. Yet, each falls short of providing a model to describe change in a large organization that operates within the confines of federal financial management.

In 1995, John P. Kotter published an article describing why transformation efforts fail. He proposes eight steps that must be taken to establish lasting change and notes that skipping any one step only creates the illusion of speeding up the process.⁴¹ The eight steps include: establishing a sense of urgency; forming a powerful guiding coalition;

³⁵ Huy, 2001.

³⁶ Pries-Heje and Vinter, "A Framework for Selecting Change Strategies in IT Organizations," Lecture Notes in Computer Science 4034, 2006.

³⁷ Damanpour and Wischnevsky, "Research on Innovation in Organizations: Distinguishing Innovation-Generating from Innovation-Adopting Organizations," *Journal of Engineering and Technology Management*, 23 (4), December 2006.

³⁸ Pries-Heje, "eGovernment and Structural Reform on Bornholm: A Case Study," Lecture Notes in Computer Science 3591, 2005.

³⁹ Amis, Slack, and Hinings, "The Pace, Sequence, and Linearity of Radical Change," *Academy of Management Journal*, 47 (1), February 2004.

⁴⁰ Huy and Mintzberg, "The Rhythm of Change," *MIT Sloan Management Review*, 44 (4), Summer 2003.

⁴¹ John P. Kotter, "Leading Change: Why Transformation Efforts Fail," *Harvard Business Review*, January 2007, Vol. 85 Issue 1, p. 96-103. Available from <http://web.ebscohost.com/ehost/detail?vid=1&hid=14&sid=f5d05dd9-f6f5-4367-9f55-a32814a15ba2%40SRCSM2>, accessed September 25, 2007.

creating a vision; communicating the vision; empowering others to act on the vision; planning for and creating short-term wins; consolidating improvements and producing still more change; and institutionalizing new approaches.⁴² This theory was not used in this thesis for two reasons. There is no mention of how the external environment affects change and several of the changes underway in DoD and the Navy already contain many, if not all, of the steps listed in Kotter's model. If GAO contends that the business transformation of DoD and the Navy are not making acceptable progress, a new change model may provide a better fit.

Huy's model focuses on two constructs in planned change that he felt were under explored. These include time and the content of change.⁴³ Time can be broken down into two distinct types, quantitative and qualitative. Quantitative time is clock time and lends itself to precise measurement. Proponents of quantitative time see time as a scarce commodity, time is money.⁴⁴ Qualitative time is dependent on the subject and can have many different meanings to different people. Qualitative time cannot be measured easily and proponents of qualitative time view time as private and emotional. According to Huy, recognizing qualitative time is important in the change process because different people view time differently and this can become a source of stress.⁴⁵ In presenting his model, Huy first defines the ideal intervention types as commanding intervention, engineering intervention, teaching intervention and socializing intervention. He then explains the efforts of large scale change as altering many elements within an organization and using multiple intervention types to create lasting change. Finally he proposes a "synthesis of interventions via the concept of temporal capability, involving sequencing and combining the ideal types."⁴⁶

A commanding intervention tends to be directive and authoritative. The leadership comes from a small group of powerful people or powerful groups. According

⁴² Kotter, 2007.

⁴³ Huy, 2001.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Ibid, 604.

to Huy, the commanding intervention is likely to be effective in an organization consisting of formal structures and the goal is fast improvements.⁴⁷ Commanding changes can be driven by powerful CEOs, by Congressional law or from flag level officers within the Navy. Engineering intervention is focused on processes and productivity efficiencies. Engineering change is likely to be successful when only processes need to be changed. These efficiencies can be gained by changing organizational structure, conducting a Lean Six Sigma project or changing accounting information systems. Teaching intervention refers to change that is accomplished by training; this intervention is successful when the change targets actively participate in their reeducation.⁴⁸ Teaching change is likely to be effective when the purpose of change is to develop organizational capabilities. Teaching change includes correcting discrepancies from outside audits or investigations, conducting site visits, or adopting best practices from industry. Socializing intervention involves a change agent actively trying to improve the quality of social relationships within an organization. It is generally assumed that socialized change among individuals will result in larger organizational change.⁴⁹ Socialized change can include grassroots change movements from within organization's lower levels or simply by individuals following the lead of a respected co-worker.

Huy's change model is summarized in Table 1. The table lists the intervention types listed above, the employee's conception of time, entrainment by factors (or where the impetus for change comes from), the time perspective and the pacing of the change.

⁴⁷ Huy, 2001.

⁴⁸ Ibid.

⁴⁹ Ibid.

Ideal Types				
Temporal Assumptions	Commanding Intervention	Engineering Intervention	Teaching Intervention	Socializing Intervention
Conception of Time	Quantitative (clock time)	Quantitative (clock time)	Qualitative (inner time)	Qualitative (inner time)
Entrainment by Factors	Outside the Organization (Congress)	Inside the Organization (logic of work processes)	Inside the Organization (individual psychology)	Inside the Organization (interpersonal relations)
Time Perspective	Near-Term	Medium-Term	Moderately Long-Term	Long-Term
Pacing	Abrupt, Rapid	Moderately Fast	Gradual	Gradual

Table 1. Temporal Assumptions of Change Intervention Ideal Types (After Huy, 2001)

Huy notes that none of the change intervention methods can by themselves lead to large-scale change. Each intervention type, enacted alone, has potential limitations. The commanding intervention can lead to resentment by personnel and resistance to change; it rarely leads to lasting and pervasive changes in values and beliefs. The engineering intervention can lead to isolated segments. Successful pilot studies in process improvements such as a Lean Six Sigma project rarely spread to the whole organization, ironically the very success of a pilot can lead to resentment in other segments. The teaching intervention is based in cognitive change and it has been found that cognitive change does not always lead to sustained behavioral change. Too much socializing could lead to an unorganized workplace that loses sight of headquarters' goals. Groups with differing perspectives can compete for scarce resources and not use resources in the best interest of the organization.⁵⁰

The Huy model recognizes that, "Large-scale change, by definition, involves a significant alteration of many organizational elements, such as formal structures, work systems, beliefs, and social relationships."⁵¹ Since none of the intervention approaches alone will create lasting change and can even create negative consequences, Huy

⁵⁰ Huy, 2001.

⁵¹ Ibid, 610.

proposes that managers need to be able to carefully mix and match intervention approaches. This mixing and matching incorporates different concepts of time and conducts the proper sequencing of interventions.

To overcome these potential negative consequences of enacted change, Huy proposes that change agents have to be “temporally capable.” This includes sequencing, time, pacing and combining multiple intervention types. This juxtaposition can be best described as a continuum with two extremes. The first is pure sequencing, only using one intervention type at a time. The second is pure combining, utilizing all four intervention types at the same time.⁵² Due to the nature of the federal government and the commanding nature of Congress, the Secretary of Defense, and the flag-level officers leading the business transformation efforts within DoD and the Navy, this thesis focuses on Huy’s proposition that starting large-scale change with a commanding intervention is effective given the right environment.

Huy states that starting large-scale change with a commanding intervention is more likely to enact changes that persist in organizations that are hierarchical in nature and whose employees accept that hierarchical state.⁵³ The change is also more likely when the organization has slack resources and where the change agents’ power is concentrated in a relatively small cadre of leaders.⁵⁴ The commanding intervention must have clear business logic and must be followed with the other three intervention approaches to allow the organization to create a new process that enables the change to persist and to repair any damages done to the “social fabric” of the organization.⁵⁵

As the succeeding chapters will show, the natures of both the Corporation and the Navy meet the criteria for enacting positive change starting with the commanding intervention style. Through the passage of laws, direction from top-level leadership, re-engineering processes and organizational structures, training efforts and socializing the changes; both entities have attempted business transformation efforts with varying

⁵² Huy, 2001.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

degrees of success. The next chapter provides a narrative history of the efforts undertaken by the Corporation to improve its financial management practices after a substantial ADA violation disrupted the agency's mission for several months.

III. THE EXPERIENCES OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE AND THE NATIONAL SERVICE TRUST

A. BACKGROUND

This section provides a background of the Corporation for National and Community Service. It begins with a brief background of the conception and organization of the Corporation and then discusses the events that led to the 2002 ADA violation. By understanding how the Corporation is organized and what problems led to the ADA violation, a better appreciation of the changes implemented by the Corporation and how those changes can be applied to the Navy financial management community can be gained.

1. The Corporation for National and Community Service

According to their 2003 annual report, “The Corporation for National and Community Service (hereon the “Corporation”) was established in 1993 to engage Americans of all ages and backgrounds in community service.”⁵⁶ The Corporation supports a range of national and community service programs, providing opportunities for individuals to serve full or part time or as part of a team. The Corporation works with governor-appointed state commissions, nonprofit organizations, community-based organizations, schools, and other civic organizations to provide opportunities for all Americans to serve their communities. President William J. Clinton signed the National and Community Service Trust Act of 1993 that created the Corporation. Rather than provide services directly, the Corporation provides a framework of programs for public and community service through state commissions, nonprofit groups, faith-based and other civic organizations. The Corporation’s three major service programs are Senior

⁵⁶ The Corporation for National and Community Service, Performance and Accountability Report, Fiscal Year 2003. Available from http://www.nationalservice.org/about/role_impact/performance.asp, accessed May 11, 2007.

Corps, AmeriCorps and Learn and Serve America (Appendix A details the Corporation's major programs and is taken from the Corporation's website).⁵⁷

To facilitate its relationships with the private and nonprofit sector entities it relies on to meet its mission, the Corporation operates differently from most federal agencies. The organization "resulted partly from the Clinton-Gore administration's efforts to adopt New Public Management principles and run government agencies in a more business-like fashion."⁵⁸ The Corporation's structure resembles that of a private sector, for-profit organization with a Board of Directors, Chief Executive Officer, Chief Operating Officer and Chief Financial Officer (Appendix B is an organizational chart of the Corporation taken from the Corporation's 2006 Performance and Accountability Report).⁵⁹

2. Americorps and the National Service Trust

As stated in the Corporation's 2006 Performance and Accountability Report, AmeriCorps is a network of national service programs that engages over one million community volunteers to perform services such as building housing, responding to natural disasters and mentoring youth. AmeriCorps members earn up to \$4,725 to help finance their education upon completion of their service.⁶⁰

The National and Community Service Trust Act of 1993 established the National Service Trust (Trust) to fund education awards and to pay the interest that accrues on qualified student loans.⁶¹ The primary purpose of the Trust is to fund education awards

⁵⁷ From the Corporation's Performance and Accountability Report for FY 2006. Appendix A.

⁵⁸ Philip J. Candreva., "National Service Trust: A Case Study", Naval Postgraduate School. July 2004.

⁵⁹ Appendix B shows the Corporation's organizational structure as depicted in their fiscal year 2006 Performance and Accountability Report (annual report).

⁶⁰ The Corporation for National and Community Service, Performance and Accountability Report, Fiscal Year 2006. Available from http://www.nationalservice.org/about/role_impact/performance.asp, accessed May 11, 2007.

⁶¹ 42 U.S.C. §§ 12501-681 (2003).

for AmeriCorps participants. The Trust was modeled on the GI Bill of the 1940's; the education award compensates citizens for national service by investing in their higher education.⁶²

To earn the full award of \$4,725, each AmeriCorps member must complete one full-time term (at least 1700 hours in 9-12 months). If a member completes a part-time term, such as a summer program, they are eligible for a "reduced-time award," usually \$1,000 or less. AmeriCorps members can only receive up to two education awards for their first two terms of service, regardless of whether they are for full-time, part-time or reduced-time terms. If a member does not complete one of their first two terms of service they cannot receive an award for a third term.⁶³

The education awards can be used to repay qualified student loans, pay the excess costs of attending a qualified institution of higher education or cover the expenses incurred in participating in an approved school-to-work program. Education awards are paid directly to members' qualified schools and lenders. Education awards can be used any time after receiving a completion of service voucher for up to seven years after the date of service completion.⁶⁴

The National Service Trust works much like a working capital fund that pays the education awards earned by AmeriCorps volunteers. Each fiscal year, the Corporation requests, and Congress appropriates, a designated amount of money to be used solely to fund the Trust. Funds for the Trust were provided through the annual Veterans Affairs, Housing and Urban Development, and Independent Agencies appropriation bill from 1993 to 2006. After fiscal year 2006, funds for the Trust are provided in the Department of Labor, Health and Human Services, and Education and Related Agencies appropriation bill. Unlike most congressional appropriations, these funds are appropriated on a no-year basis. That is, they do not expire for obligation purposes at the end of the fiscal year, so they remain within the Trust until disbursed in an education

⁶² AmeriCorps Member Handbook (September 1997).

⁶³ AmeriCorps Member Handbook: Getting Started (2007).

⁶⁴ Ibid.

award.⁶⁵ Funds in the Trust are subject to federal appropriation law with respect to the fund's purpose (U.S.C. § 1301a) and amount (Anti-Deficiency Act, U.S.C. § 1341). The funds in the Trust are allowed to be invested in Treasury instruments of the United States and these earnings grow the fund's balance.⁶⁶ The Corporation was appropriated separate funds to pay for program expenses and administrative expenses; however, these funds could not be used to pay for education awards. Upon its inception in 1993, the Corporation struggled to make decisions regarding obligation reporting and budgeting for the Trust.

In the early stages of Trust management there was little oversight and almost no historical data supporting a decision on when an obligation should be recorded. This was mainly due to the way the Trust was conceived; this was to be a new way of doing business and there were no organizations in the US government to use as a template. "When the Trust was initially created, the Corporation, in consultation with the Office of Management and Budget (OMB), recorded Trust obligations based on amounts outlayed. This method was accepted, implemented and, until recently, continued unchallenged."⁶⁷ This method was accepted by both OMB and GAO until 2003.

Due to a lack of program history, the Corporation found it difficult to estimate AmeriCorps enrollment. By the end of 1995, it became evident that AmeriCorps enrollment failed to reach the initial estimate. In addition, the Corporation realized that not all enrollees were successfully completing their terms of service and earning their education awards.⁶⁸ It became apparent that the Corporation needed a model to estimate both enrollment and education award payments to correctly budget for operations of the Trust.

⁶⁵ AmeriCorps Member Handbook: Getting Started (2007).

⁶⁶ Ibid.

⁶⁷ Office of the Inspector General, The Corporation for National and Community Service, "The National Service Trust: Internal Control Weaknesses Cause an Anti-Deficiency Act Violation at the Corporation for National and Community Service". OIG Report 03-007, 3.

⁶⁸ Ibid.

Based on experience during the early years of operation, the former Senior Director for Budget and Trust developed a series of statistical models in 1996. According to the Director for Budget and Trust:

These formulas estimated data such as the number of enrollees who would successfully complete their service, when they would complete their service, and when, after completing their service, they would claim their education award. In addition to estimating the number of AmeriCorps members who would claim an education award, the formulas were also used to estimate the average amount of an education award. These early formulas, which were also used to forecast estimated future funding requirements for the Trust, evolved into the Service Award Liability (SAL) model. The model attempted to provide better management of the Trust's funds and more accurate liability data for the Corporation's financial statements.⁶⁹

Due to errors inherent in the SAL model, earnings from the interest on the corpus invested in government paper, and continued Congressional appropriations, the balance in the trust grew much faster than anticipated and appeared to exceed requirements. After several investigations into the management of the Trust, Congress rescinded \$81 million from the Trust and in 2001 an additional \$30 million.⁷⁰

During the first three years of operation, the Corporation struggled with routine administrative matters such as accounting, and the Corporation's financial statements were not subject to independent audit from fiscal year 1994 to fiscal year 1996.⁷¹ During this period the financial statements were not deemed auditable and the audit opinions were disclaimed. After these initial problems were solved, the Corporation, like many government agencies, struggled to obtain a clean audit opinion. Table 2 details the opinions offered by the independent auditors KPMG and Cotton and Company. In each

⁶⁹ OIG Report 03-007.

⁷⁰ Ibid.

⁷¹ Candreva, 2004.

external audit, the auditor notes that its audits are conducted in compliance with Government Auditing Standards as delineated by the Comptroller General of the United States.⁷²

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Type of Opinion	D	D	D	Q/BS	U/BS	U/BS	U	U	U	U	U	U	U
Number of Material Weaknesses	N/A	N/A	10	7	8	5	1	0	0	0	0	0	0
Number of Reportable Conditions	N/A	N/A	0	3	2	2	2	1	1	1	1	2	1
<p>D - disclaimed opinion, statements were not auditable Q/BS = the Balance Sheet only received a qualified opinion, all other statements were disclaimed U/BS = the Balance Sheet only received an unqualified opinion, all other statements were disclaimed U = all statements received an unqualified opinion</p>													
<p>Financial statements for fiscal years 1994 - 1996 were not subject to independent audit. Fiscal years 1997 through 2002 were audited by KPMG, fiscal years 2003 through 2006 were audited by Cotton and Company. Source: Adapted from Philip J. Candreva, "National Service Trust: A Case Study" and the Corporation for National and Community Service Performance and Accountability Reports Fiscal Years 2003 - 2005.</p>													

Table 2. Path to Auditability (After Candreva, 2004).

It is interesting to note that the first unqualified audit coincided with the first Congressional rescission and that many of the problems the Corporation had with financial management occurred after they obtained clean audit opinions.

B. THE CORPORATION'S ANTI-DEFICIENCY ACT VIOLATION

As the Corporation struggled through its growing pains, it missed several key indicators that its financial status was in a precarious position. Management turnover, Congressional rescissions, program growth, inadequate budget models and time-late accounting information systems all led to the ADA violation that is described below.

1. The Trust Cannot Support Enrolled Members

For most of 2001, the Corporation lacked a confirmed Chief Executive Officer (CEO) due to the change in Presidential administrations. The former Chief Operating

⁷² The Corporation for National and Community Service, "Performance and Accountability Report Fiscal Year 2006," retrieved from http://www.nationalservice.org/about/role_impact/performance.asp, accessed August 28, 2007.

Officer filled the role during this time. The acting CEO and senior management realized that the budget was going to be cut based on prior year rescissions and discussions with OMB and Congressional staff. According to the acting CEO, “The Corporation believed that they could meet the Administration’s budget reduction goals by not requesting additional appropriations for the Trust.”⁷³ As a result, the Corporation senior management requested no appropriations for the Trust in their fiscal year 2002. As justification, the Corporation noted that they expected interest earnings in the Trust to lower requirement for new budget authority, levels of AmeriCorps members to remain at current levels and that the Trust balance was sufficient to cover estimated education award liabilities for 2002.⁷⁴

In May 2001, Senators Christopher S. Bond and Barbara A. Mikulski requested that the Corporation’s Office of the Inspector General (OIG) review the methodology used by the Corporation in determining that no additional Trust appropriations were necessary for fiscal year 2002 (Appendix C).⁷⁵ The Corporation’s OIG contracted with the accounting firm KPMG LLP to perform this review. KPMG’s review concluded that the Trust would be solvent during fiscal 2002 and that no new appropriations were required from Congress. KPMG did stipulate that an additional \$75 million would need to be appropriated during fiscal year 2003 to sustain the Trust. This statement assumed that Congress elected to continue AmeriCorps membership at levels consistent with the past several years.⁷⁶

For program years 2001 and 2002 the number of approved AmeriCorps positions “exceeded estimated enrollment for Trust liability purposes, but this situation was not considered unusual because it was expected that not all AmeriCorps members would

⁷³ OIG Report 03-007, 4.

⁷⁴ The Corporation for National and Community Service, Fiscal 2002 Budget Estimate and Performance Plan (April 2001).

⁷⁵ Letter from the Honorable Christopher S. Bond and the Honorable Barbara A. Mikulski, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate, to the Honorable Luise Jordan, Inspector General, Corporation for National and Community Service (May 10, 2001). Appendix C.

⁷⁶ Response to the Subcommittee on VA, HUD, and Independent Agencies’ Request for Review of the Corporation for National Services’ Fiscal Year 2002 Funding Request for the National Service Trust Fund, OIG Audit Report No. 01-49 (June 15, 2001).

complete their terms of service or use their education award.”⁷⁷ In fact, possibly due to the terrorist attacks of 2001, enrollment spiked during 2002.

Corporation management did not anticipate the effect that increased enrollment would have on the Trust. Management focused on expanded service to the community and the benefits of increased enrollment, yet it missed warnings that the Trust was in an untenable position. In July 2002, the former Director of Programming sent an email to the Corporation’s CEO stating that enrollment could reach 58,000 by the end of 2002, 8,000 more members than authorized by Congress. The CEO responded that this was a “VERY good thing.”⁷⁸ This indicated that management was more concerned with meeting the President’s objectives of growing the force and not on the financial management and fiscal law implications inherent with that growth. The next month the Director of Programming sent another email to the CEO and senior management stating that enrollment had reached 60,000, an all time high. He also stated that the trust funding estimates would have to be evaluated and updated “as we go forward. We have a critical need for more resources in the Trust over the next couple of years...Unless this is fixed, we will have a very real future problem.”⁷⁹ It was at this point that management began to realize that the program growth may have legal implications. The situation was succinctly articulated in a report conducted by GAO.

According to the GAO report:

Late in calendar year 2002, Corporation management began to realize that the Trust liabilities might exceed assets. Compounding the effect of increased enrollment on the Trust, Congress passed a series of continuing resolutions during its annual appropriations period that allowed the Corporation and other federal agencies to receive budget authority based on prior year’s authorizations. Since the Corporation had not requested nor received fiscal year 2002 appropriations for the Trust, no additional funds for the Trust were provided by the continuing resolutions.⁸⁰

⁷⁷ OIG Report 03-007, 5.

⁷⁸ Ibid., 6.

⁷⁹ Ibid.

⁸⁰ Ibid.

On November 15, 2002, the Corporation sent notification to Congress and OMB that enrollments had been “paused.” The rationale behind this pause was an attempt to stop the Trust’s liabilities from exceeding Trust assets.⁸¹ Congress requested on November 20, 2002, that the Corporation’s OIG investigate the circumstances that led to the pause and to determine the solvency of the Trust. In addition, Congress requested that the OIG investigate “a violation of the Anti-Deficiency Act, since it appears that the Corporation created more liabilities than it has resources for. (Appendix D is a copy of the letter from Congress to Corporation’s OIG)”⁸²

2. Diverging Legal Opinions

During the OIG’s inquiry, the question of when the Corporation should record a Trust obligation became the key to determining if the Anti-Deficiency Act had been violated. Since 1994, the Corporation had been recording a Trust obligation when a payment was made to a qualifying member’s approved educational institution. The Corporation felt that since it was impossible to determine the exact amount of Trust liabilities at any given time, this was the most responsible use of taxpayer money. By not obligating all potential awards and using the SAL model to estimate liabilities, excess funds in the corpus could be invested and allow the Trust to grow. The Corporation based this on historical usage data showing that not all AmeriCorps members would actually earn the education award, and of those that earned the award, not all would actually claim it. The Corporation therefore decided to record obligations at or near the time of payment. This practice previously went unchallenged by Congress, the GAO, and OMB.⁸³ The timing of obligation recording is not set in fiscal law and this issue had not caused problems with the Trust prior to 2002. However, when the circumstances in the fall of 2002 arose, GAO and OMB could not reach agreement of when the Corporation should record an obligation. In total there were five legal opinions issued by OMB and GAO between April and June of 2003.

⁸¹ OIG Report 03-007.

⁸² Letter from the Honorable Christopher S. Bond to the Honorable J. Russell George (November 20, 2002). Exhibit D.

⁸³ OIG Report 03-007, 10.

In April 2003, the Corporations' Inspector General testified before Congress that he had not found evidence to substantiate a violation of the Anti-Deficiency Act. The Corporation's audited financial statements supported this testimony; the financial statements reflected that Trust liabilities did not exceed Trust assets at any time.⁸⁴ This testimony sparked the debate between OMB and GAO. OMB felt that the Corporation should be allowed to use net present value to record an obligation based on the SAL model, but GAO disagreed.

GAO offered a final response and disagreed with OMB's opinion that allowed the Corporation to use estimates. GAO continued to advocate that the Corporation "record the maximum potential liability to cover the education benefits of new participants at the time the Corporation authorizes a grant recipient to fill positions."⁸⁵ It also noted that the Corporation could seek legislation permitting it to use an estimation model for recording its obligations."⁸⁶

The OMB requested that the Corporation reconstruct the Trust's finances since inception. The Deputy Chief Financial Officer reconstructed the Trust's financial status beginning in 1994. The reconstruction was based on the reporting methodology for OMB SF 133 and used the OMB definition of the obligation point, which was more conservative than what the Corporation had been using.⁸⁷ The OMB standard definition records an obligation well before outlay, but it was more liberal than the GAO recommendation. This new definition significantly changed the financial standing of the Trust. According to the OIG, "this reconstruction revealed that the Trust's liabilities, based on education awards and expected interest forbearance due, exceeded the Trust's appropriations and interest earnings beginning in 2000."⁸⁸ This violation of the Anti-Deficiency Act continued until Congress and the President took action.

⁸⁴ OIG Report 03-007, 10.

⁸⁵ Ibid.

⁸⁶ Legal opinion from Anthony H. Gamboa, General Counsel, Government Accountability Office, to the Honorable Christopher S. Bond and the Honorable Barbara A. Mikulski, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate (June 6, 2003).

⁸⁷ OIG Report 03-007, 12.

⁸⁸ Ibid.

C. OUTSIDE ASSISTANCE

The ADA violation, when using reconstructed financial statements, was determined to be \$63 million. There was no way for the Corporation to remedy the situation without an appropriation from Congress. Both the President and Congress were quick to take action to remedy the ADA violation and the financial management problems of the Corporation.

1. Legislative Response

On June 20, 2003, Senator Barbara A. Mikulski, ranking member on the Subcommittee on VA, HUD, and Independent Agencies, sent a letter to the President (Appendix E is from the Corporation's OIG report 07-003).⁸⁹ This letter sought the President's support to end the ongoing legal battle between the Corporation, OMB and GAO. In the letter, Senator Mikulski requested that the President request supplemental funding, fill vacancies on the Corporation's Board of Directors and to appoint strong leadership (she had requested that the then current CEO submit his resignation). The last line of the letter, "I look forward to working with you to strengthen AmeriCorps for the future," clearly shows that she already had a plan in mind.

On July 2, 2003, the Strengthen AmeriCorps Program Act (SAPA) passed both houses of congress in one day and was signed into law by President Bush on July 3, 2003, the very next day. The Act settled the dispute relating to obligation recording that had been ongoing since November 2002. The Act required five changes related to the financial management of the Corporation.

1. The Act stated that the Corporation, shall approve the position at the time the Corporation: "(1) enters into an enforceable agreement with an individual participant to serve in NCCC or VISTA; or (2) awards a grant to enter into a contract or cooperative agreement with an entity to carry out a program for which such a national service position may be approved under NSCA (AmeriCorps)."⁹⁰

⁸⁹ Letter from the Honorable Barbara A. Mikulski, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate, to the President of the United States (June 20, 2003). Exhibit E.

⁹⁰ Public Law 108-45.

2. The Act required the Corporation to record as an obligation “an estimate of the net present value of the national service educational award associated with the position, based on a formula, determined in consultation with the Director of the Congressional Budget Office, that takes into consideration historical rates of enrollment in, and or earning and using such awards for, such a program.”⁹¹
3. The Act directed the CEO to report annually and to certify to Congress that the Corporation is in compliance with the Act requirements for position approval and obligation recording. This provision is very similar to the requirements of the Sarbanes-Oxley Act.
4. The Act directed the Corporation to establish a reserve account within the Trust to ensure availability of adequate funds to support the awards of approved positions for each fiscal year.⁹² It also prohibited the Corporation from obligating reserve funds unless: “(1) it determines that such funds will not be needed to pay awards associated with previously approved national service positions; or (2) obligates the funds to pay such awards for such previously approved positions.”⁹³
5. Finally, the Act directed that the Corporation obtain independent audits of Corporation accounts relating to Trust funds that were appropriated by Congress and the records that were used to estimate the liabilities against the Trust. Further, all amounts included in the Trust were to be available for payments of national service educational awards under NCSA.⁹⁴

The act also ended the Anti-Deficiency Act violation condition that, as reconstructed, had existed since 2000 by legitimizing the Corporation’s use of estimates in recording the value of education awards.

2. The President Reinforces the Act

To further strengthen management of AmeriCorps and the Trust, President George W. Bush signed Executive Order 13331 of February 27, 2004. The Order states the desire, “...to strengthen the ability of programs authorized under the national service laws to build and reinforce a culture of service, citizenship, and responsibility throughout our Nation, and to institute reforms to improve accountability and efficiency in the administration of those programs.”⁹⁵ Section 4 deals specifically with management and is detailed below:

⁹¹ Public Law 108-45.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Executive Order 13331 of February 27, 2004, signed by President George W. Bush.

Sec. 4. *Management Reforms.* (a) The Corporation should implement internal management reforms to strengthen its oversight of national and community service programs through enforcement of performance and compliance standards and other management tools.

(b) Management reforms should include, but not be limited to the following:

(i) Institutional changes to the budgetary and grant-making processes to ensure that financial commitments remain within available resources;

(ii) Enhanced accounting and management systems that would ensure compliance with fiscal restrictions and provide timely, accurate, and readily available information about enrollment in AmeriCorps and about funding and obligations incurred for all national and community service programs;

(iii) Assurance by the Chief Executive Officer and the Chief Financial Officer in the Corporation's Management Representation Letter that its financial statements, including the Statement of Budgetary Resources, are accurate and reliable; and

(iv) Management reforms that tie employee performance to fiscal responsibility, attainment of management goals, and professional conduct.⁹⁶

D. OFFICIAL FINDINGS

At the behest of Congress, the Corporation's OIG, GAO and the National Academy of Public Administration conducted separate investigations to find the underlying causes of the ADA violations and management problems at the Corporation. The official findings are outlined below.

1. Office of the Inspector General Findings and Recommendations

On July 24, 2003, the Corporation's IG, at the request of Congress, released a report titled "The National Service Trust: Internal Control Weaknesses Cause an Anti-

⁹⁶ Executive Order 13331.

Deficiency Act Violation at the Corporation for National and Community Service”. The report detailed the background of AmeriCorps and Trust operations. It then outlined management’s surprise as problems began to surface and how early warnings of problems were missed by management. During the course of the investigation, it became clear that Corporation procedures for enrolling AmeriCorps members lacked internal controls and guidelines.⁹⁷ The investigation identified conditions that contributed to a breakdown in communications and coordination between the corporation’s budget development functions, the AmeriCorps program office, and the Trust office. As a result, the Corporation had no effective system for monitoring AmeriCorps member enrollment and comparing enrollment to Trust funding levels. The Inspector General issued five recommendations as a result of this investigation:

1. Only qualified Trust personnel be allowed to make liability projections and have input on Trust budgetary decisions.
2. The Corporation use position descriptions and an accurate organizational chart to establish responsibility, accountability, and authority for all key Trust positions.
3. The Corporation develop an automated, joint method for simultaneously analyzing information in both databases (Web Based Reporting System (WBRS) and eSPAN). This joint method was to provide real-time reports indicating the impact of changes in enrollment on the Trust.
4. Automated alerts be established with the WBRS and eSPAN to warn grant officers, AmeriCorps program officers, and Trust employees of potential problems regarding enrollment activities. The OIG further recommended that automated safeguards be established in all enrollment systems to prevent enrollment from exceeding predetermined levels. “While the WBRS limited over-enrollment on a grant-by-grant basis, cumulative enrollment safeguards should be programmed into these systems.”⁹⁸
5. The Corporation publish formal guidance regarding the use of the Service Award Liability model. The guidance was to describe who would have access to the

⁹⁷ OIG Report 03-007, 7.

⁹⁸ Ibid, 17.

model, when it would be run, where and how to obtain model data, and to whom the generated reports would be sent for review.⁹⁹

2. GAO Findings and Recommendations

Six months later, GAO released a report to congressional requestors titled “Corporation for National and Community Service: Better Internal Control and Revised Practices Would Improve the Management of AmeriCorps and the National Service Trust”. The GAO found that in the time between the Corporation’s OIG report and the GAO report that some of the internal control weaknesses had been addressed, but that other problems remained. Congress asked GAO to answer three important questions. Congress wanted to know, “(1) Has all AmeriCorps participant information been accurately recorded in the Trust database? (2) How does the Corporation estimate the funding needed to provide education awards through the Trust? (3) Has the Corporation made management and operational changes that ensure enrollments will not be suspended in the future and that address the Strengthen AmeriCorps Program Act requirements?”¹⁰⁰

GAO found that about 3 percent of enrollments had a discrepancy between the Trust database and participant documentation that could affect estimates of future probable expenditures of the Trust (5 percent of enrollments had discrepancies overall).¹⁰¹ Further, the Corporation had changed the estimation model (SAL) to be more conservative in order to regain credibility with Congress and its grantees. GAO found that this model increased estimated funding needed for the Trust and that it did not consider external factors that could impact participant enrollment. Finally, GAO found “that management and operational changes should reduce the risk of enrollment suspensions, but that some of the new policies may hinder service delivery and could contribute to higher balances in the Trust.”¹⁰²

⁹⁹ OIG Report 03-007, 16-17.

¹⁰⁰ Government Accountability Office, “Corporation for National and Community Service: Better Internal Control and Revised Management Practices Would Improve the Management of AmeriCorps and the National Service Trust”, GAO Report GAO-04-225, 2.

¹⁰¹ Ibid, 12.

¹⁰² Ibid, 22.

To improve the management of AmeriCorps and the National Service Trust, GAO recommended that the CEO of the Corporation take the following nine actions:

1. Implement a strategy to correct discrepancies between the Trust database and the enrollment and exit forms.
2. Review and document the effectiveness of data assurance processes.
3. Regularly verify the accuracy of the SSNs of participants.
4. Update the users' manual for the Trust database and develop an inventory of edit and data checks used for the database.
5. Obtain an auditor's opinion on the adequacy of the internal control over financial reporting as part of the annual financial statement audit.
6. Create a means to take into account the possible impact that external factors may have on participant behavior in Trust funding estimates and budget requests.
7. Establish and execute a periodic deobligation schedule for unused Trust obligations.
8. Review the assumptions being used in the new funding model after the Corporation gains more experience with the new model and current participant behavior.
9. Evaluate the enrollment policies regarding refilling and converting participant positions.¹⁰³

3. National Academy of Public Administration Findings and Recommendations

At the request of Congress, the National Academy of Public Administration (NAPA), reviewed the Corporation's leadership, organization and operations. In October 2005, NAPA published a report titled "The Corporation for National and Community Service: Building a Foundation for the Future". The study noted overall that Congressional action and new procedures adopted by the Corporation's leadership cured the specific problems that led to the Anti-Deficiency Act violation. However, it goes on further to state that "despite progress in many areas, the Corporation still had many challenges to overcome if it were to become a preeminent organization."¹⁰⁴ NAPA

¹⁰³ GAO-04-225, 29-30.

¹⁰⁴ National Academy of Public Administration, "The Corporation for National and Community Service: Building a Foundation for the Future". Academy Project Number 2044-000, xi.

found eight areas for improvement; however, this thesis focuses on the four that impact financial management: the board of directors, grants management, financial management and strategic management.

NAPA noted that the Corporation's board of directors is unusual in that it is neither advisory nor governing. The Corporation's board has attributes of both, but cannot be either "due to statutory restrictions and the expectations of members of Congress."¹⁰⁵ NAPA stated that the Corporation's board should evolve to become more like a governing board that is involved in setting the strategic direction for the Corporation. NAPA noted that to strengthen the board Congress will have to pass legislation that "(1) requires the board to submit to the President annually a review of the CEO's performance, with its recommendation to retain or remove the CEO, and (2) requires the Board to review the Corporation's budget request in advance of submission to OMB and Congress."¹⁰⁶

In the area of grants management, NAPA suggested improvements that they believed would at the margins. The report noted that what was needed to enable the Corporation to manage its grants management workload over the long term was a radical new approach. This approach would need to reduce the workload burden while maintaining service levels, but left that radical change up to Corporation management. The short-term changes focused on submitting legislative proposals that changed the way that matching requirements and pushing more grant awarding responsibility down to lower levels.

NAPA noted that by October 2005, the Corporation had made significant improvements in its financial management. NAPA stated that critical to improving financial operations "was a rationalization of the underlying financial information systems."¹⁰⁷ The panel recommended that the Corporation's Chief Information Officer

¹⁰⁵ NAPA Academy Project Number 2044-000, xii.

¹⁰⁶ Ibid, xii.

¹⁰⁷ Ibid, xiv.

be delegated authority and oversight for the Corporation's information technology resources as delineated by the Clinger-Cohen Act, just the DoD's CIO must approve financial management systems.

NAPA noted that the Corporation had devoted significant time to making the organization more strategy-centered and results-oriented. By October 2005 the Corporation had responded to the Government Performance and Results Act (GPRA) and other government-wide requirements. The Corporation had also released its strategic vision that covered 2006-2011. NAPA recommended that "future strategic planning be unified by involving all the necessary players in the process and turn its planning into the basis for managing the Corporation."¹⁰⁸ This future planning and strategic forethought is similar to DoD's future years defense plan (FYDP). A timeline of major events is provided below (external events are depicted on the bottom and the Corporation's actions on the top of the figure):

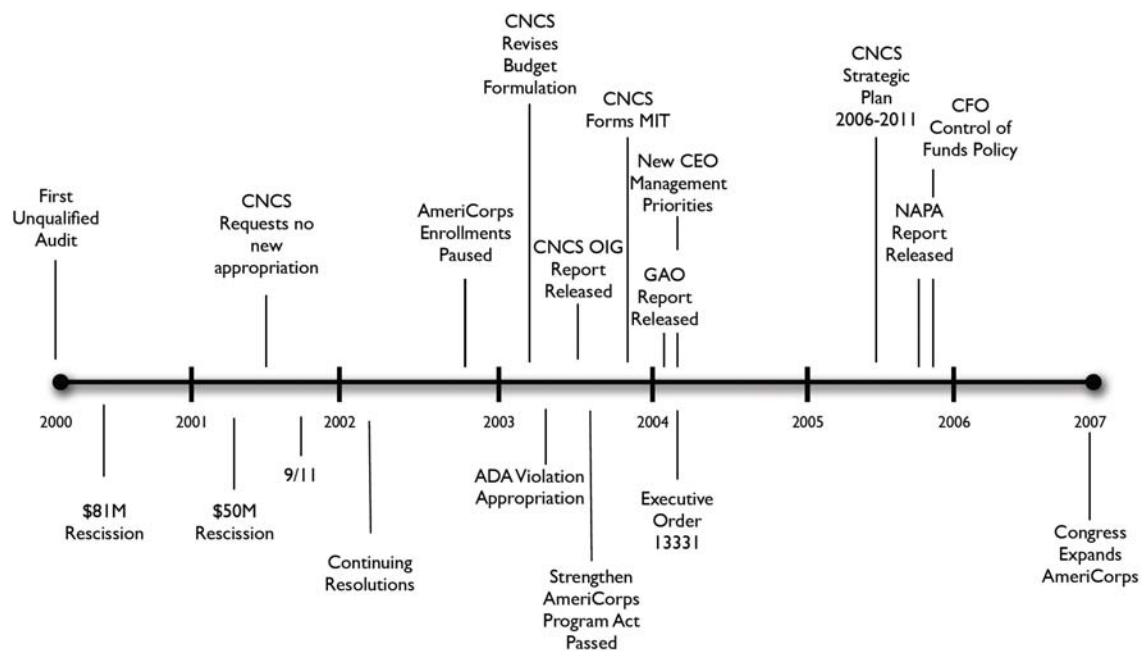


Figure 3. Timeline of the Experiences of the Corporation

¹⁰⁸ NAPA Academy Project Number 2044-000, xv.

E. THE CORPORATION'S RESPONSES

The Corporation began to implement changes almost as soon as its problems were discovered. The early responses focused on ensuring that another ADA violation would not occur. However, the Corporation went much further than that. The actions taken to remedy problems found by the OIG, GAO and NAPA were swift and embraced by the organization. It is interesting to note that in its first 10 years of existence the Corporation had over 10 investigations at the direction of Congress, mainly related to financial management issues. Since the release of the NAPA report, the Congress has not had a reason to request an investigation. In fact, by 2007, Congress had expanded the program to 100,000 AmeriCorps members and had lauded the Corporation for excellence in financial management. The Corporation began its change process by rapidly responding to recommendations by its IG and GAO. An aggressive teaching program was put into effect that ensured that employees understood the significance of the required change. Systems that dealt with financial information were incrementally upgraded to meet the requirements of SAPA and Executive Order 13331. As the changes were made, the Corporation continued to provide training and socializing to ensure that its employees not only understood the new systems, but that a new culture of excellence developed. These changes are examined in detail below.

In January 2003, before Congress, the Corporation's OIG, GAO or NAPA could comment on the problems that led to the Anti-Deficiency Act violation, the CEO released a memorandum for employees of the Corporation. This memo addressed new procedures for AmeriCorps and the Chief Financial Officer (Appendix F).

In the CEO's message in the fiscal year 2003 Performance and Accountability Report (PAR), the CEO discussed the financial problems associated with the Trust, but noted that several positive changes were underway. He stated that compliance with SAPA had resolved many of the problems by statutorily determining the way to account for Trust obligations. Further, he stated that the appointment of a new CFO and many new financial procedures had done much to get the Corporation on the right path.

The Corporation also noted that in fiscal 2003 data quality was an important issue. The Corporation is highly decentralized and relies on data flow to ensure accuracy of financial information. Information necessarily flows from the Corporation to its grantees and from grantees to the Corporation. Information on new volunteers enrolled, balances in the Trust, projections on remaining volunteer slots, each grantees' share of vacant volunteer slots and other key financial data were closely interlinked. The time-late nature of the existing systems did not provide timely, accurate or reliable information for management to make business decisions. In addition, the Corporation found that the data entered into the systems, in addition to being time-late, were not accurate. According to the fiscal year 2003 PAR, "The focus of the Corporation's data quality efforts has been on assessing the internal data system controls and their effect on the accuracy of performance information."¹⁰⁹ The Corporation recognized that the degree of accuracy was related to the degree of decentralization of the reporting entity. By 2004, the Corporation was working to include data assurance initiatives by building a new performance measurement system for all programs.¹¹⁰ This new system was designed to measure the accuracy and timeliness of grantee data entry into the eSpan system to ensure that accurate counts of new members were visible at the corporate level.

In the 2003 PAR the newly appointed CFO stated, "Achieving good financial standing as a steward of taxpayer funds is crucial to helping the Corporation meet a key strategic goal: developing and maintaining a sound, innovative organization that strengthens the service field."¹¹¹ In fiscal year 2003 the Corporation received its fourth consecutive clean audit opinion. This however, did not mean that the Corporation was financially sound. According to the fiscal year 2003 PAR, the management controls assessment was based on the controls that include the announcement of funds availability for grants, the receipt and evaluation of applications for financial assistance, the negotiation and award of grants, and cooperative agreements.¹¹² The report also noted

¹⁰⁹ Corporation for National and Community Service, "Performance and Accountability Report," Fiscal Year 2003, 68.

¹¹⁰ Ibid.

¹¹¹ Ibid, 71.

¹¹² Ibid.

that the \$63.1 million ADA violation that occurred between June 20, 2002 and September 30, 2002 was covered by a \$64 million deficiency appropriation passed in the spring of 2003 as a part of the war supplemental, PL. 108-11. As a result of the ADA violation the CFO proposed several corrective actions relating to Trust management and grants approval. These corrective actions included:

- estimating total FTE and member slots available with the appropriation and allocating them to programs before any awards are made;
- obtaining CFO certification of the program and Trust costs prior to grant approval;
- recording Trust obligations concurrent with the grant award process;
- automating safeguards in the Web Based Reporting System that prevent grantees from enrolling more members than they were allotted; and
- continuous oversight of Trust enrollments to allow for timely mid-course corrections if necessary.¹¹³

The fiscal year 2003 external audit confirmed that the implementation of these controls had resolved the issue. However, the audit recommended that the Corporation include a risk-based assessment of which grantees were to be selected for on-site monitoring visits to ensure financial data integrity.

The above measures closed a reportable condition that had existed previously, but the fiscal 2003 audit conducted by Cotton & Company LLP noted that grants management was still considered a reportable condition. This condition had existed since the fiscal year 2001 audit. Cotton & Company recommended that: (1) the Corporation reevaluate its on-site monitoring based on a risk based approach, (2) state offices utilize tracking capabilities in eGrants to comply with policies and procedures, (3) Corporation staff provide timely feedback from site visits to grantees and (4) the Corporation closely monitor progress reports on corrective actions.¹¹⁴ This condition continued to exist during the fiscal year 2004 audit; however, the Corporation hired a Director of Grants Management during 2005 and corrected the reportable condition.

¹¹³ Corporation's FY2003 PAR, 75.

¹¹⁴ Ibid.

The Corporation's CEO understood that the changes that were necessary required buy-in from not only management, but from front-line workers and widely dispersed grantees. The CEO held a meeting with a diverse group of senior management and detailed the need for a team of experts to implement the changes required by SAPA and Executive Order and to meet the recommendations outlined by the IG and GAO. To ensure compliance and to continue to strengthen its financial management practices, the Corporation created the Management Improvement Team (MIT). The team was composed of multidisciplinary Corporation staff and its mission included three goals: to improve accountability and increase cost-effectiveness and efficiency, to produce an action agenda that would establish a lasting culture of open communications and management excellence, and to monitor progress and ensure full implementation of the action plan.¹¹⁵ On September 15, 2003, the Corporation issued a press release titled "National Service Agency Undertakes Comprehensive Effort to Strengthen Management." This release detailed an all-hands meeting between Corporation staff and the acting CEO and outlined the implementation of the MIT. Noting the concerns raised by Congress the CEO stated, "...The Management Improvement Team is an important step in fully and promptly addressing those concerns and strengthening national service to achieve the growth that the President believes is essential..."¹¹⁶ According to the CEO, the desired outcome was "an organization whose financial management, information management, and human capital management practices are recognized as a model for other agencies."¹¹⁷ In the months that followed, the MIT met with outside entities that had concerns about the management of the Corporation, including OMB, Congress and others. In the first three months of operation the MIT completed several critical short-term goals identified by the OIG and GAO. These included how the Corporation controlled financial information and data flow and to clarify position descriptions and reporting relationships.¹¹⁸ The acting CEO also noted that the MIT built

¹¹⁵ Corporation's FY2003 PAR.

¹¹⁶ Corporation for National and Community Service, "National Service Agency Undertakes Comprehensive Effort to Strengthen Management," press release, September 15, 2003.

¹¹⁷ Corporation's FY2003 PAR, 71.

¹¹⁸ Corporation for National and Community Service Press Release, September 15, 2003.

long-term management improvements by conducting a comprehensive “program management review” based on research of best practices of agencies that had similar missions and challenges.¹¹⁹ At the conclusion of the MIT’s work a detailed action plan called the “Blueprint for Management Excellence” was published to guide the Corporation.

In December 2003, the current CEO was confirmed by Congress ending almost a year of a civil servant filling the vacancy. The current CEO came to the agency during a tumultuous period and during the first year that SAPA required the CEO to certify the Corporation was in compliance with the SAPA.

In February 2004, the Corporation’s Board of Directors noted that accountability was not only a financial matter, but involved a culture change as well. The board asked the CEO and CFO to provide a metrics dashboard for tracking financial processes and progress. The CEO also delineated his goals for the upcoming year. One of which was to “manage to accountability” by “creating a performance culture, flattening the organization, and making sure that people on the front lines have input on strategic decisions.”¹²⁰ By the time the fiscal year 2004 PAR was published the Corporation had issued Corporation-wide indicators for this strategy.

The 2004 PAR also noted that the new conservative SAL model was leading to excessive balances in the Trust. It stated that the Corporation was working to include other social and economic factors in to the model to further refine the projections. In addition to improving the SAL model, the Corporation recognized the importance of improving its legacy financial systems. The proposed improvements to the financial systems can be seen in Appendix G which is taken from the 2004 PAR. The goal of the new system was to ensure timely and accurate financial information that could be used for decision making at all levels.

¹¹⁹ Corporation Press Release, September 15, 2003.

¹²⁰ Corporation for National and Community Service, “Minutes of the Board of Directors Meeting”, February 10, 2004.

On March 24, 2004, the current CEO, with only 99 days in office, testified before the House Appropriations Subcommittee on Veterans Affairs, Housing and Urban Development, and Independent Agencies to detail progress made in the past 12 months. The CEO reported that the Corporation was in a much better position, "...thanks to a number of interrelated factors, including the implementation of strict management and accountability procedures, passage of the Strengthen AmeriCorps Program Act, increased board oversight, and passage of the 2004 budget."¹²¹ The CEO also noted that the new CFO had implemented procedures regarding the award of grants and enrollment of new members to ensure that the problems that led to the ADA violation were not repeated. Citing the reviews made by GAO, the OIG and the independent auditing firm Cotton and Company, the CEO noted some underlying weaknesses, but stated that significant progress had been made. Specifically, the Corporation was in compliance with generally accepted accounting principles (GAAP) and SAPA, was following sound business rules and that management reforms were correcting identified weaknesses.¹²² The CEO also stated that to address the problems identified in 2003 they created change programs in the areas of information technology, internal communications, grant member application and reporting practices and internal personnel practices. The result was the improved quality of data and the usefulness of that data. In this testimony the CEO also specified two targeted budget requests that assisted in strengthening the performance and effectiveness of the Corporation. The requests included \$5M for training and technical assistance for grantees to successfully manage their programs to become more sustainable and \$6.7M to support a sufficient level of oversight by restoring key staff and to provide training since the AmeriCorps program had grown by 50 percent.

The CEO, in the same testimony, discussed his management priorities that were to "guide the way the Corporation conducts its business: (1) restore the trust and credibility with all of our stakeholders; (2) manage to accountability; and (3) keep the customer in

¹²¹ Corporation for National and Community Service, "Written Testimony Before the House Appropriations Subcommittee on Veterans Affairs, Housing and Urban Development, and Independent Agencies," Wednesday, March 24, 2004.

¹²² Ibid.

focus.”¹²³ To meet goal number one the CEO noted that the Corporation had been more forthcoming with Congress by notifying in advance all significant developments, good or bad. They also had been directed by the Board of Directors to engage in a rulemaking process to allow grantees more clarification on procedures. To meet goal number two, as outlined by the 2004 Omnibus Appropriations Act, the Corporation was required to review its grant programs and financial systems and report to Congress the results. The report was submitted to Congress on March 12, 2004. The CEO outlined the results of this report in his testimony and broke it down into four areas: general management, Trust financial management, grant management and performance measurement. Each are discussed below.

Between the time that the Trust problems were discovered and the enrollment pause was lifted, the Corporation realigned management and put into place strict procedures to ensure that violations would not occur in the future. As previously noted, passage of SAPA provided safeguards which ensured that Trust liabilities would not exceed Trust assets. This external factor solved part of the problem. The Corporation also was working to institutionalize reforms with regard to legal requirements of appropriated funds. This was eventually distilled into a CFO numbered document. All of the procedures implemented in the area of Trust management were to provide a better “snapshot of member enrollments” at any given time. This increase in data quality and timeliness improved management oversight.

The Trust improvements above were aimed at informed decision-making, and those improvements spread to other areas of general financial management. In 2003-2004 the Corporation created a new budget process that linked financial requests to performance measures.¹²⁴ The budget analyst staff was also increased to improve efficiency and effectiveness and to close out audit reportable conditions and a backlog of closed grants.

¹²³ Corporation for National and Community Service, “Written Testimony Before the House Appropriations Subcommittee on Veterans Affairs, Housing and Urban Development, and Independent Agencies,” Wednesday, March 24, 2004., 5.

¹²⁴ Ibid.

In 2003, the Grants Management Task Force of the Board of Directors examined grants procedures. As a result of the Task Force's 2003 report, the Corporation established an Office of Grants Policy that was charged with overseeing the daily operations of the grant review process. The CIO also improved the legacy databases to interconnect systems and streamline the process to improve visibility. By linking eGrants with WBRS the Corporation and grantees have real-time information regarding number of members and financial status.

The area of performance measures was seen as key to program accountability. By the time of the Omnibus 2004 Appropriation report to Congress, all programs that applied for funding from the Corporation had instituted performance measures commensurate with their individual programs. To continue momentum in the area of performance measures, the Corporation contracted with the Urban Institute and Abt Association and consulted with several experts to improve this area for the future.

In a press release from the Office of the CEO, the CEO noted that FY04 was a "turnaround" year for the Corporation.¹²⁵ In outlining the major accomplishments of the Corporation over the last year the CEO states,

As I have detailed in testimony before Congress and elsewhere, the Corporation has moved steadily and surely over the past 12 months to establish financially and managerially sound systems and processes. For example, in FY 2004 we:

Put in place new procedures that fix the problems that we had experienced in the past with the National Service Trust;

Strengthened our grants management, oversight, and monitoring functions including reforming the grant making process, improving the quality of peer reviewers, and implementing improvements to eGrants, our online grant application system;

Instituted a new budget development approach in which each department uses a logic model that ties budgeting to goals and performance;

¹²⁵ Corporation for National and Community Service, "CEO Message on the 2004 Performance and Accountability Report," press release, Wednesday, November 24, 2004.

Upgraded technological systems to ensure more accurate and timely reporting of data;

Developed new administrative standards for out state service commissions, and implemented improved compliance monitoring protocols;

Developed a comprehensive strategic human capital plan; and

Ended the predominant use of term appointments, expanded employee training, and implemented a performance-based appraisal system.¹²⁶

Because of these changes several key milestones were met. A review of the Corporations' financial systems found that the systems conformed to governmental standards outlined in the Financial Management Improvement Act. Management controls were found to be in compliance with the Federal Managers' Financial Integrity Act, with the exception of one area that was cleared in January of 2005. The GAO and OIG both found that the Corporation had sound business practices including strict controls over appropriated funds. For the fifth straight year the Corporation received an unqualified opinion of its financial statements.

Several areas focusing on long-term sustainability were also addressed in the CEO message on the 2004 PAR. These included:

1. The Board of Directors began to outline a five-year strategic plan that incorporated recommendations from Executive Order 13331.
2. Deloitte reviewed core business practices, the results were incorporated to enhance reforms already completed.
3. NAPA continued to review Corporation operations and the final report due in 2005 was used to further enhance reforms.
4. The Corporation implemented the strategic human capital plan that was developed in 2003, this plan aligned staff with Corporation goals.

¹²⁶ Corporation Press Release, Wednesday, November 24, 2004, 1.

5. As directed by the Board of Directors, the Corporation developed a management metrics dashboard to allow visibility of performance targets.

6. The Corporation continued with the rule making process to make programs more predictable and reliable for grantees. This rule also endeavored to better leverage federal resources.

7. The Corporation continued to upgrade technological resources to build upon legacy systems. This included new designs for eGrants and WBRS.

On October 1, 2006, the Office of the Chief Financial Officer issued a numbered policy and procedure document titled CFO-06-001; the subject was the administrative control of funds. According to the document its purpose was “To provide Corporation staff with clear procedures to be followed in the execution of the budget and present basic fund control principles and concepts.”¹²⁷ This document fixed financial responsibility and delineated who had the authority to determine grant levels and member service years. The positions of CEO, CFO, Deputy CFO for Planning and Program Management, Deputy CFO for Financial Management, COO, Executive Officers and the Director of Grants Management were all given specific and accountable responsibilities regarding the use of appropriated funds and Trust management. The policy document also fixed Trust commitment supporting documentation and points of control with specific positions within the Corporation. Each report and point of internal control was assigned to a specific position to ensure that the safeguards for ADA violations and member service year authorizations were not exceeded.

As noted in the September 2004 Board of Directors minutes, the Corporation planned to use a logic model to link budget requests to strategic goals for fiscal year 2006. In 2006 the Corporation’s strategic plan that covered the period 2006-2011 was published. It covered several areas of Corporation operations; however, only the area that focuses on management will be examined. The management section, titled “Sustaining Excellence” emphasized effectiveness, accuracy, management alignment,

¹²⁷ Corporation for National and Community Service, “Administrative Control of Funds,” Policy Number CFO-06-001, October 1, 2006.

streamlining workloads and a targeted, in-depth monitoring and analysis of “...grantee programmatic and fiscal performance.”¹²⁸ The strategic plan emphasized strict performance metric monitoring to allow real-time management decision making. The Corporation intended to continue to invest in its information systems to better capture, aggregate and analyze data. This investment was deemed essential to better integrate and streamline the budgeting and execution of Trust funds. By gathering accurate, real-time data the Corporation believed that it could perform more effectively and efficiently. This strategy also emphasized investment in human capital through sustained training and communication. Through feedback loops and responsiveness the goals of the financial management and broader, overarching goals could be more readily implemented. To sustain best practices, the Corporation aspired to become a successful learning organization by leveraging technology to share both knowledge and skill.¹²⁹ As recommended by NAPA, the Corporation had incorporated planning and planning-related tools into its strategically significant issues related to the Trust and financial management.

By the time the CEO presented his testimony in support of the fiscal year 2007 President’s budget to the House Appropriations Subcommittee on Labor, Health and Human Services, Education and Related Agencies, the tone had significantly changed. This testimony consisted of measures of success; these measures dealt almost entirely with references to the number of volunteer hours and the work that was conducted to better the nation as a whole. In the entire five page document there were only two paragraphs devoted to the management of the Corporation. The first outlined the Corporation’s new strategic plan that covered the period 2006-2011. The second covered the Corporation’s implementation of cost saving initiatives that were recommended as a part of the study conducted by NAPA. There was no mention of Trust management, internal controls or management reforms.

On June 27, 2007, the House Education and Labor Committee approved legislation to expand and improve several of the Corporation’s programs. The

¹²⁸ Corporation for National and Community Service, “Strategic Plan: 2006-2011,” 29.

¹²⁹ CFO-06-001.

legislation, Generations Invigorating Volunteerism and Education Act (GIVE), H.R. 2857, would increase the number of AmeriCorps volunteers from 75,000 to 100,000 by 2012, increase member stipends by \$400 by 2012, extend volunteer programs to middle and high school students and create an AmeriCorps reserve network focused on natural disaster response. This legislation was largely the result of the Corporation building a strong reputation of management excellence during the years subsequent to the 2002 ADA violation.

IV. ANALYSIS OF THE CORPORATION'S CHANGES

This chapter analyzes the change intervention styles and how the Corporation used them to make financial management transformation persist. The sequencing, timing and rhythm of the change interventions is analyzed using Huy's framework. The chapter closes with an overview of the Corporation's overall change process and its persistence and why starting with a commanding intervention appeared to be the best course of action.

A. CHANGE INTERVENTION STYLES UTILIZED BY THE CORPORATION

In Chapter II, Huy's framework for effecting lasting planned organizational change was discussed. Huy contends that planned organizational change is dependent on the juxtaposition of four differing change intervention styles and the timing, sequencing and pacing of the application of those styles. The four intervention styles are: commanding, engineering, teaching and socializing. The commanding intervention deals with authoritative power exerted on members of an organization from outside sources or from groups within an organization that have the ability to direct change. The engineering intervention deals with changing processes and/or the organizational structure of an organization. The teaching intervention is centered on changing employees' beliefs to enact organizational change. The socializing intervention is focused on changing social interactions to improve organizational effectiveness.¹³⁰ These change interventions must be timed and sequenced in such a way that the potential negative effects of one intervention are counteracted by the positive effects of another. The changes effected by the Corporation to address its financial management problems are analyzed through each of the four intervention styles.

¹³⁰ Huy, 2001.

1. Commanding Intervention

Huy postulates that starting large scale change with the commanding intervention is effective if four key factors are met.¹³¹ The first factor is that the change agents' power has to be concentrated.¹³² In the case of Congress, the change agent has the full weight of the law behind it; congress controls the authorization and appropriation process and literally has the power to end the program as a whole. The President makes final budget decisions and is the head of the Executive Branch under which the Corporation falls. The CEO of the Corporation is the most powerful figure within the organization and certainly has the power to direct large scale change. After the problems with financial management were detected at the Corporation, language in SAPA directed the Board to have more authority, including the power to terminate the CEO, this gave the Board significant influence over reform efforts. The second factor is that the organization has to accept hierarchical authority.¹³³ The Corporation had been in existence for ten years at the time the change was initiated. There is historical evidence that the Corporation's employees did accept this type of authority; it can be seen in the tremendous efforts undertaken in 1999 to comply with the CFO Act to achieve a clean audit opinion in 2000. The third factor is that the change has to have clear business logic.¹³⁴ In the case of the financial management reform following the ADA violation, the Corporation's employees understood that underlying financial management problems led to a serious breach of the law and diminished public trust. To undertake efforts to correct this deficiency made clear business sense and that putting controls in place to ensure that this did not occur in the future was a positive step. The final factor is that the

¹³² Huy, 2001.

¹³² Ibid.

¹³³ Ibid.

¹³⁴ Ibid.

commanding intervention has to be followed with other intervention approaches to ensure that not only does the change persist, but that the organization is able to operate effectively in its new environment.¹³⁵

The commanding intervention associated with the financial management transformation at the Corporation came from three sources: Congress, the President and the Corporation's Board of Directors and CEO. Congress mandated change by passing the Strengthen AmeriCorps Program Act in July 2003. The President's signature one day after the law was passed clearly showed that the Executive Branch was also concerned with the management of the Trust and the Corporation. SAPA is very closely related to Sarbanes-Oxley in that it not only requires improved financial management, it also requires the CEO to report on the condition of internal controls and is intended to ensure the accountability of public funds. While Sarbanes-Oxley is concerned with shareholders, SAPA is concerned with taxpayers. In February 2004, the President signed Executive Order 13331. Among other things, this order charged the Corporation with adhering to management principles delineated in SAPA and it illustrated that both the Legislative and Executive branches were concerned with the financial health of the Corporation and felt that they needed to take action to ensure positive change. The final commanding intervention involved directive recovery steps from the Board of Directors and several memorandums from the Corporation's CEO to the entire organization. The memorandums were intended to both socialize the nature of the problem and to highlight the need for change. The formation of the Management Improvement Team was clearly a significant commanding intervention that resulted in lasting change within the Corporation and resulted in direction from the Board.

2. Engineering Intervention

The engineering intervention is likely to be effective when the change is directed at improving processes and economic performance.¹³⁶ Although Huy describes this as a method for producing rapid change, in the case of the Corporation with millions of

¹³⁵ Huy, 2001.

¹³⁶ Ibid.

volunteers, ten of thousands of supported customers and multiple financial reporting structures and systems, this change intervention was necessarily gradual. The goal of the Corporation in improving its processes was to fix financial responsibility and at the same time to ensure that its accounting information systems produced timely, accurate and reliable data to make financial decisions. The first step was to flatten the organizational structure to ensure that decisions could be made at the appropriate level. This ensured that through delegation, the employees with the most accurate data and who were actively involved in processes had the authority to make decisions at their level. The CFO staff was also reorganized to create an analysis and reporting team in the Office of the Chief Information Officer (CIO) responsible for developing an executive information system. This cross-functional approach is indicative of an organization establishing an enterprise approach to change. This holistic approach ensured that there was consistency across segments and that the organization's goals were integrated as a team effort. Second, position descriptions were re-written to ensure that management of the Trust at each position was clearly defined. The final step was to upgrade legacy accounting information systems. This was initially done by requesting line item amounts in the President's budget specifically marked for system upgrades. The Corporation took an incremental approach that is still underway. The first step was to link eSpan and WBRS into a single tool that ensured grantees could report, and the Corporation staff could see, on a real time basis the number of volunteers enrolled and the balance of the Trust. The next step was to roll these systems into Momentum, the overarching data repository for the Corporation. Subsequent events tied payroll, human resources and budget execution into Momentum. Future plans include incorporating a performance metric dashboard and budgeting into Momentum, but for now these are stand alone systems (the Corporation's proposed financial management information system structure can be seen in Appendix G, source: Corporation's PAR FY2004). The Corporation also changed its process for the awarding of grants to increase competition and at the same time effectiveness and efficiency. By tying grants amounts to performance metrics, the grantees had more control over how much money they would receive and the means to increase funding by performing at a higher level. This change would have a systemic effect. By increasing

competition, much like the competitive awarding of government contracts, the efficiency of grantees and the level of service that the Corporation as a whole could provide increased.

3. Teaching Intervention

The teaching intervention is likely to be successful when the desire is to change the employees' beliefs and the purpose is to enhance the organization's capabilities.¹³⁷ This change intervention generally is not rapid and the employee must be an active participant. The change intervention is designed to change the entrenched beliefs that an employee holds to match the beliefs that an external source perceives. After the Corporation received a clean audit opinion and had successfully enrolled more volunteers than in previous periods, the perception was that they were on track and that the financial management of the Trust was performing well. The ADA violation served as a shock to the system. Subsequent reports by the Corporation's IG, GAO and NAPA served to shake up the taken-for-granted financial management processes in the Corporation. There are numerous teaching interventions in the recovery of the Corporation, but the most germane to this thesis are the responses to the reports of the IG, GAO and NAPA. There is a tendency in the government to quickly list the deficiencies generated by an external audit, assign a responsible person and develop a plan of actions and milestones. This plan is usually acted on for a few months and then becomes less important as time goes on. When it comes time for the next audit, the plan is taken out and a few weeks of effort are applied to correcting deficiencies. This in turn does not lead to long-term change, the underlying problems still exist and the change is merely cosmetic.

In the case of the Corporation, leadership felt that execution was more important than good intentions. The Corporation took an active role in correcting and changing the cognitive perception of its employees. The responses to the IG, GAO and NAPA reports typically indicated that the change had been made, not that a plan was in place to make the change. To talk about plans in the future tense implies that no teaching has yet occurred, nor has the change been socialized through the organization. In chronological

¹³⁷ Huy, 2001.

order the IG report came first. By the time the GAO finished its report, conditions that required change had been implemented. After the GAO report, NAPA conducted a study and noted that the recommendations of GAO had been implemented. In areas where change could not be made immediately, the Corporation took active steps to ensure that Congress and senior Corporation management understood the plan. This was more than monitoring a plan of action and milestones, it included requesting supplemental or line item appropriations to upgrade information systems, active reports to Congress and the formation of a Management Improvement Team consisting of senior management to actively spread change through the Corporation. There was continuity between what the employees were learning and what outside agencies required of them; this allowed the employees to make sense of why the old way was insufficient and why the new way was required. While some of the changes made in response to the IG, GAO and NAPA reports were engineering in nature, the persistence of the changes were due to the teaching intervention and ensuring that employee beliefs were changed. The Corporation was so successful in teaching new processes that grassroots efforts to improve business took place that helped to socialize the changes and ensure that they persisted.

4. Socializing Intervention

The socializing intervention is likely to be effective at changing social relationships and when the goal is to improve the organization's effectiveness.¹³⁸ The Corporation undertook several important initiatives to ensure that the strategic change required as a result of the ADA violation were socialized to the lowest levels. The new CEO testified before congress that one of his main goals was to manage to accountability and for front line workers to have the ability to impact the strategic vision. This empowerment of front line workers had an enormous impact on the quality and persistence of the change. By allowing all employees to shape the nature of the change process, through direct interactions with the MIT, the employees were less likely to resent the commanding and teaching interventions that occurred both before and after the socializing change. The Corporation viewed itself as a close community with many

¹³⁸ Huy, 2001.

shared beliefs and values. Management was convinced that buy-in was a requirement to ensure that the change program persisted. This was evident by investments in training systems that involved feedback loops and through continuous open communications. The rapid dissemination of important, strategic information through the use of the Corporation's intranet, newsroom and CEO press releases ensured that top level information made it down to the lowest echelons. Enhanced employee awareness of the Corporation's overarching goals allowed them the ability to shape their day-to-day efforts to support those goals. By becoming a learning organization based on the sharing of knowledge, each employee not only understood the big picture, but could affect future outcomes. One of major goals of the MIT included improving internal communications. This included mechanisms for employees to raise ideas for improving management, operations and communications and developing mechanisms to improve information sharing. The Corporation created a collaboration intranet site that included a sharing staff idea portal, news on MIT and Corporation-wide management and organizational improvements portal and a portal that listed relevant studies and reports.¹³⁹ This allowed actions that affected the entire Corporation to be widely disseminated down to the working level ensuring that needed information was not held up by bottlenecks at higher levels. The final product that helped to socialize the vision of the Corporation was the strategic plan that covered 2006-2011. This document affects all aspects of the Corporation and can be used by both managers and employees to guide the day to day business of the Corporation.

All four intervention styles are evident in the changes that occurred at the Corporation after the 2002 ADA violation. Like most other government agencies the Corporation had commanding interventions in the form of Congress, the President and senior management. The Corporation also had complex accounting information systems that had to be upgraded and organizational structures that had to change through engineering interventions. Additionally, the Corporation utilized the teaching and socializing interventions to counteract the potential negative impacts that can be felt in

¹³⁹ Corporation for National and Community Service, "Preliminary Blueprint for Management Excellence: A Progress Report on CNCS Management Improvements and Plans," February 5, 2004.

organizations when major change is directed. However, application of the four interventions styles themselves were not enough, there was a temporal aspect to change that was managed as well.

B. TIMING, SEQUENCING AND RHYTHM OF INTERVENTION STYLES

Huy proposes that the timing, sequencing and rhythm of the intervention styles play an integral role in determining the success or persistence of a transformation effort. We see that in the Corporation's management reforms.

Due to the nature of the ADA violation as a trigger, the change process at the Corporation inevitably began with a commanding intervention from Congress and the President. The subsequent actions taken by the CEO and the Board of Directors to minimize the potentially negative effects of the commanding intervention were achieved through combining multiple intervention types and sequencing them such that negative effects of one style were offset by the positive effects of another. The Corporation necessarily responded to commanding interventions by Congress and the President to ensure the Trust remained solvent. This included directive changes within the Corporation and reengineering of accounting systems. However, the Corporation quickly incorporated teaching interventions to ensure that the changes were understood and that the reorganized Corporation could operate effectively in its new environment. Concurrently, the MIT was ensuring buy-in by socializing the change to front-line workers by providing updates, soliciting feedback and by stressing personal interactions through web based knowledge sharing portals.

To react to Congress and the President, the Corporation was required to take immediate action to prevent future Trust deficiencies. This included putting policies and procedures in place, conducting initial evaluations on how to upgrade accounting information systems and drafting new funds control procedures for submission to OMB. While meeting these external requirements, several internal change processes were taking place simultaneously. The Corporation was also responding to recommendations from the IG and GAO and trying to build its reputation with Congress. Sensing that these simultaneous pressures could quickly lead to low morale and resentment, the MIT, by

February of 2004, had recommended that the Corporation institute training on new policies and procedures and employee information sharing programs. These teaching and socializing interventions began shortly after and ran concurrently with the commanding changes that had been taking place since early 2003. Examples of the teaching interventions that occurred concurrently with the commanding changes were: creation of online issues forums, development of an employee facilitator and trainer corps and ongoing training on key internal Corporation policies and operations. The result of the teaching intervention was that employees were not overwhelmed with the new strategic focus of the organization because everyone understood the big picture. Examples of socializing intervention that ran concurrently with the commanding intervention include: frequent newsletters and updates on issues such as MIT progress and recovery efforts, an upgraded intranet to spread information and incorporation of working level suggestions into the MIT's recovery plan. The socializing intervention helped to focus employee attitudes on recovery and progress, rather than on resenting management and the process of change itself. This was accomplished by pushing information normally held at senior management levels down to employees at all levels and incorporating recommendations from those employees when appropriate.

The engineering intervention that affected systems and processes, while a result of the commanding nature of SAPA language, occurred at a slower pace. Prior to changing any business systems, the Corporation changed its organizational structure and assigned specific financial management responsibility to key positions and personnel. It also designed internal control procedures that ensured compliance with federal fiscal law and submitted them to OMB. Once the re-organization was in place, work could begin on changing the systems themselves. Then extensive training on the new systems occurred at all levels of the Corporation, from headquarters to the grantee level. This ensured that when a new system was brought online it could be used to gather timely, accurate and reliable information from the start.

By combining systems and organizational engineering and teaching interventions, the Corporation was able to produce new accounting information systems that operated as advertised within a span of four years. Future enhancements will only improve the system.

Since sequencing can be viewed on a continuum of pure sequencing of one intervention at a time, or pure combining of all interventions at a time, it is important to recognize how the organization will react. The Corporation effected positive change by falling in the middle of the continuum. The early changes were nearly pure sequencing to ensure the solvency of the Trust and to guard against future ADA violations. However, shortly after, most change interventions ran concurrently and were combined in such a way to reduce employee stress and garner buy-in from all levels of the organization.

C. BEGINNING CHANGE WITH A COMMANDING INTERVENTION IN GOVERNMENT ENTITIES

Due to the nature of government entities, change is usually driven from a group or groups that hold authoritative, commanding power. As seen above, it is how the organization reacts to directives from Congress, the President or senior management that affects how those changes persist. Change is often reversible and the path to change may be made under an assumption that there is only one correct sequence to maintain the persistence of that change.¹⁴⁰ By understanding their organization, the Corporation was able to recognize that all four methods of intervention were needed and that they had to be sequenced in such a way to derive the maximum benefit of each to achieve lasting change. The Corporation recognized that these intervention styles would also have to be juxtaposed and sequenced to derive the maximum benefit. The styles were combined and sequenced in such a way that the potential negative side effects of each style were offset by the positive effects of another style.

The changes in the Corporation produced a lasting, positive effect on the financial management of not only the Trust, but on the organization as a whole. Since the Corporation faced many of the problems with financial management that the Navy faces

¹⁴⁰ Huy, 2001.

today, the process the Corporation used to make those changes persist should apply to the Navy. Government agencies operate in an environment that is much different than that of private, for-profit corporations. Government agencies face the pressures of influence by Congress and the President, are bound by fiscal law and government performance standards, and are bound by appropriations made by Congress rather than by generating equity in their organization. The adoption of best practices from private industry in this environment may not produce the lasting change that government agencies desire. The Corporation effected positive change and the process has all of the hallmarks seen in Huy's model. Specifically, beginning planned change with the commanding intervention style and supplementing with the other intervention styles sequenced such that the organization thrives in its new environment.

The Navy, while much larger in scope than the Corporation, has its own change agenda that spans beyond fiscal year 2015. The longer timeline is indicative of the difference in size and scope between the Corporation and the Navy. This thesis does not question the timeline of the Navy's proposed transformation effort, but rather is concerned with how to make those changes persist. The next chapter discusses the Navy's business transformation overview outlined in the DoD's September 2007 Enterprise Transition Plan. Lessons from the Corporation's experiences and Huy's framework are then applied to the Navy's plan to increase the likelihood that the Navy's changes persist.

THIS PAGE INTENTIONALLY LEFT BLANK

V. LESSONS FOR THE DEPARTMENT OF THE NAVY FINANCIAL MANAGEMENT COMMUNITY

This chapter gives a brief overview of the Navy's business transformation plan as outlined by the September 2007 DoD Enterprise Transition Plan. Then this plan is analyzed using Huy's framework. The chapter is broken down by the four change intervention styles and a section on the timing, sequencing and pacing of the Navy's planned change. This analysis parallels that of the Corporation's change strategy generating recommendations for the Navy.

There have been numerous business transformation efforts in the Navy spanning decades. These efforts include Total Quality Leadership (TQL), Total Quality Management (TQM) and more recently Lean Six Sigma. The Navy's goal in business transformation is to free resources for reinvestment in improved war fighting capabilities. The method of freeing those resources is by becoming a more effective and efficient enterprise by implementing innovative business practices.¹⁴¹ The balance between funding future capabilities while simultaneously maintaining current capabilities to meet mission requirements has proven to be a challenge for the Navy. The Navy has adopted a business transformation strategy designed to support both of these goals. This strategy includes process changes and process improvements. The Navy's number one business priority is to "identify and protect the resources required to sustain our naval forces' core capabilities."¹⁴² To achieve this goal the Navy intends to cut overhead costs, streamline processes, enable a net-centric environment, increase oversight of procurement and contracting, cut non-value added activities and create incentives for DON warfighters and civilian employees to become agents of change.¹⁴³ The DON has listed five priorities to support its transformation efforts:

¹⁴¹ Department of Defense, "2007 Enterprise Transition Plan: ETP," September 28, 2007. Available from http://www.dod.mil/dbt/products/2007_BEA_ETP/ETP.html, accessed October 2, 2007.

¹⁴² Ibid, 123.

¹⁴³ Ibid.

1. Create a Seamless Infrastructure
2. Create Optimized Processes and Integrated Systems
3. Optimize Investments for Mission Accomplishment
4. Transform Applications and Data into Web-based Capabilities to Improve Effectiveness and Gain Efficiencies
5. Align Business Mission Area Governance to Further Transformation Goals.¹⁴⁴

There have been programs implemented ostensibly to support these priorities including: Navy/Marine Corps Intranet, pilot studies for a Navy ERP system, Lean Six Sigma projects, enterprise-wide black-belt training, and several planned upgrades to legacy information systems that span a period of ten years. Using Huy's framework, the Navy's plan for transformation is discussed below.

A. THE NAVY'S COMMANDING INTERVENTION

The Navy's environment supporting a commanding intervention closely parallels that faced by the Corporation. Both face external pressures to reform from Congress, the President and the American people and follow a chain-of-command that starts with the President. Both agencies are required to comply with congressional laws that affect all government agencies such as the CFO Act and GPRA. In fact, if the commanding intervention is used in a military setting, the response would expectedly be more positive than in any other government agency. Military personnel are used to complying with exacting orders and carrying them out.

According to Huy, the application of the commanding intervention involves "a commander-like approach whereby change agents apply directive and coercive actions to their change targets to exact compliance with their proposed change goals."¹⁴⁵ This type of approach in the Navy is widely evidenced in such programs as TQL, TQM, Sea Power

¹⁴⁴ DoD September 2007 ETP, 123.

¹⁴⁵ Huy, 2001, 604.

21, Navy ERP and Lean Six Sigma projects; all processes directed by senior leadership. These types of programs typify the construct of the commanding intervention which, “follows the approaches taken in formal strategic planning involving examination of the internal and external situations, applying analytical frameworks to make changes in tangible entities such as introducing formal structures, divestment of people, assets and systems.”¹⁴⁶ While engineering in nature, programs such as TQL, TQM and Lean Six Sigma were pushed down to the operational level in response to outside pressures for the department to reform its business practices. The measure of success of these programs was to be nearly instantaneous cost savings or cost avoidance. The outcome of changes directed by Navy leadership for these efforts was expected to be measured in clock time, by personnel at all levels of the organization. TQL and TQM had success in the private sector but, when commanded from senior levels of the DoD and DON, received lukewarm acceptance and likewise mediocre results in the Navy. As far back as 1994, the GAO noted that, “Most inventory management personnel are not receiving the training they need to effect cultural change...Further, less than 30 percent of military inventory management personnel are even required to take training...”¹⁴⁷ The phrases TQM and TQL and virtually non-existent in today’s Navy lexicon. The underlying science that created positive results in other organizations did not apply directly to the organization of the DoD or the DON. It was not inherently flawed, but was something that would not succeed unless leadership stood behind it 100 percent and lower levels bought in to the changes directed from above.

Huy states that the commanding change only belongs to a small cadre of people, usually those with the most power in the organization.¹⁴⁸ In the case of the Navy this group is also aided by a group of management consultants, who in many cases are seen as outsiders with little knowledge of the Navy. Business transformation decisions made by

¹⁴⁶ Kenneth Euske, “Planned Intervention Modes: The Experiences of an Armed Forces Organization ; THeoryL Planned Intervention Modes,” class notes, Naval Postgraduate School, Management Control Systems, Spring 2007.

¹⁴⁷ Government Accountability Office, “Organizational Culture: Use of Training to Help Change DoD Inventory Management Culture,” GAO/NSAID-94-193, available from www.gao.gov. Accessed November 16, 2007.

¹⁴⁸ Huy, 2001.

senior leadership were not necessarily flawed; it may have been that the execution of the plan did not occur in such a way that ensured lasting change. Leaders can direct change, but if it appears that the change itself is the result of a study or a plan conceived by a paid consultant, the level of buy-in at lower echelons may be tempered by anything less than full support by leadership. Commands from senior Navy leaders only reach so far down the organization before they need to be supplemented with another intervention. Successful planned change does not involve updating plans, but rather incorporating change into the daily business efforts of the organization. According to Euske, the commanding intervention can achieve fast and visible changes, such that a manager can update a plan of action and milestones, but that it is improbable that the commanding intervention will actually change beliefs and result in lasting change.¹⁴⁹

B. THE NAVY'S ENGINEERING INTERVENTION

The Navy's business transformation plan is focused on reengineering processes to increase effectiveness and gain efficiencies. The Navy's plan appears sound and has proven that reengineering efforts can yield savings. However, those savings are small and it is not clear whether those savings are being used in the way that the CNO envisioned. For example, "...there is a significant disparity between FMB's savings estimates and those of the Echelon II Commanders/Resource Sponsors. Specifically, FMB recognizes \$898 million in 'identified' savings across they FYDP, while SE BOD estimates \$27.7 billion"¹⁵⁰ Further, "'Savings' are being tracked and reported by several different entities throughout the DON."¹⁵¹ Actual realized and harvested savings for recapitalization were significantly less than estimated by Sea Enterprise.¹⁵² It is also important to recognize that past reengineering efforts such as TQM did not yield the results that the Navy desired. Through Huy's framework some generalized lessons can be applied.

¹⁴⁹ Euske, 2007.

¹⁵⁰ Jason Miller, "An Analysis of the Sea Enterprise Program," MBA Thesis, Naval Postgraduate School, Monterey, CA, June 2005, 72.

¹⁵¹ Ibid, 72.

¹⁵² Ibid.

Several engineering interventions are currently taking place within DoD and the Navy. The BTA publishes a Business Enterprise Architecture (BEA) summary on an annual basis. The BEA is the architecture that supports the DoD business mission area and there are six business enterprise priorities, one of which is financial visibility. Part of the engineering solution for financial visibility is the Standard Financial Information Structure (SFIS). This structure provides a common financial information system for all DoD components and agencies. This information will then be aggregated at the DoD level and provide CFO Act compliant data for the entire enterprise. Implementation of SFIS is taking an enterprise-wide approach, “The BTA’s implementation experts on the Enterprise Integration team are working closely with all major ERP programs to ensure that standard implementation and configuration are achieved across the DoD.”¹⁵³ The Navy’s ERP implementation is scheduled for 2013.

By September 2005, the Navy had invested approximately \$1 billion in four ERP pilots. These pilots were not intended to be enterprise-wide business solutions.¹⁵⁴ GAO stated, “...because of the various inconsistencies in the design and implementation of the pilots, they were not interoperable, even though they performed many of the same business functions.”¹⁵⁵ According to Huy, engineering interventions, like pilot studies, can lead to stove-piped organizations and create parochialism at the expense of enterprise-wide integration and cooperation.¹⁵⁶ The lack of success of the four initial pilots caused the Navy to create an ERP central program office to manage the implementation. GAO has found that unlike other similar projects within DoD, the central program office appears to be using an effective process of identifying and documenting requirements.¹⁵⁷ The current ERP implementation schedule has slipped from 2011 to 2013 in the past two years. A twelve year implementation schedule and \$1.8 billion to date (for pilot projects alone) are being used to ensure that this program

¹⁵³ DoD September 2007 ETP, 93.

¹⁵⁴ Government Accountability Office, “Navy ERP Adherence to Best Business Practices Critical to Avoid Past Failures,” GAO report GAO-05-858, available from www.gao.gov, accessed October, 12, 2007.

¹⁵⁵ GAO-05-858, highlights.

¹⁵⁶ Huy, 2001.

¹⁵⁷ GAO-05-858.

takes hold. Making the system perform as designed is not enough: “pilot site experiments rarely spread, for their very success generates defensiveness and rejection by other business units claiming that they are different.”¹⁵⁸ Due to the differing nature of the various Navy enterprises (undersea, aviation, surface, net-warfare) successful implementation at one enterprise may not translate to successful ERP systems at another. Aviation depots differ significantly from shipyards and net-warfare support is different from all of the other stakeholders. If buy-in is not obtained from other segments of the enterprise up front, later successes are in jeopardy. This thesis does not question the systems that the Navy is developing to support SFIS and ERP, but questions whether efforts are being taken to generate buy-in across the enterprise (horizontal) and down the chain of command (vertical) and whether the engineering changes are sufficiently integrated with the commanding, teaching and socializing interventions. This will be necessary to ensure lasting change.

The Navy has also instituted an engineering change intervention to its organizational structure. Navy Enterprise (NE) is designed to eliminate the stove-piped nature of the major subordinate commands by creating a matrix structure that aligns supported and supporting commands vertically and horizontally. Though the process is still in its early stages, the desired end result is an improvement on the legacy organization by creating an organization that takes the entire enterprise into account when making decisions. The vision is stove-pipes broken down and major commands sharing information and decision making. Success in this area requires that all major commands recognize the enterprise as a whole or they may regress back to legacy stove-piped, autonomous organizations. Reorganization is a highly stressful event and leaders must recognize that the process itself can fail due to employee perception of the process and the stress of change. Kahn, Quinn, Snoek, & Rosenthal (as quoted in Huy) state,

Imposed change in the formal structures (e.g., matrix) had caused at least three kinds of time-related stress: role ambiguity, such that some employees did not know when to play a specific role; role conflict, such that they did not know which of the competing role behaviors to perform

¹⁵⁸ Huy, 2001, 612.

at a specific time; and role overload, such that employees had to perform more role behaviors than was possible in a given time period.¹⁵⁹

The Navy tends to default to reengineering processes and structures. There are plans to reengineer systems to meet the standards of SFIS, Lean Six Sigma projects to generate cost savings and cost avoidance, and the Navy Enterprise matrix organization. Just as commanding interventions are not successful alone, engineering interventions need to be supplemented with other interventions.

C. THE NAVY'S TEACHING INTERVENTION

The Navy has an established general military training program, professional development programs and an array of service schools to train and educate personnel, but there are few examples of what Huy describes as teaching. Huy states that “outside intervention is necessary to convert the tacit causes of ineffectiveness into explicit formulations, since employees are cognitively trapped by their own hidden assumptions.”¹⁶⁰ Facing these underlying tacit causes takes more than training; it involves changing the cognitive beliefs of employees. This requires collaboration between the change agent and the employee rather than training on how to complete a task. Teaching is likely to be effective when the goal, like the Navy's business transformation goal, is to develop capabilities. However, this effort is typically effective only when beliefs are changed.¹⁶¹ As opposed to the commanding intervention, where personnel can feel resentment at the change imposed on them, in the teaching intervention, personnel are actively involved in their reeducation.¹⁶² In one positive example the Navy has made extensive progress in training Lean Six Sigma green and black belts to get to the root of process problems and actively involve some employees at the lowest levels. As of 2006, “Several Deputy Assistant Secretaries of the Navy (DASNs) have completed GB training, and the DON's total of 3,399 trained LSS GBs

¹⁵⁹ Huy, 612.

¹⁶⁰ Ibid, 607.

¹⁶¹ Ibid.

¹⁶² Ibid.

exceeds the Secretary's goal of 2,000 by the end of 2006. Over 4,400 leaders have completed LSS Champion training, including 92% of the Secretary's direct reports. Of the 935 trained LSS Black Belts (BB) in the Department, 93 have attained American Society for Quality (ASQ) BB certification."¹⁶³

Overall, however, the Navy's business transformation does not seem to have the same teaching effort to back up the commanding and engineering interventions. Congressional, Presidential and GAO pressures resulted in programs such as the BTA, the Navy's Financial Improvement Plan (FIP), Navy ERP, and many engineering changes described above. Yet, the effort to teach these proposed changes to the managers of these futures systems seems lacking. Changing the culture in the DoD was first mentioned in the September 2007 ETP. Recognizing that changing people's attitudes and skills as well as the organizational dynamic is an important first step, it recognizes the teaching and socializing aspects of planned change. However, there was no specific plan outlined to accomplish this goal. If neglected, there may be a general feeling that these change programs may fade with a change in administration or may fail like past change efforts. To ensure that the change persists, the Navy needs to ensure that the managers who will inherit the system in 10 years collaborate in effecting the business transformation.

The final teaching intervention is how the Navy reacts to outside reports and takes corrective actions. While some of the responses may be engineering in nature if a whole system or process is changed, the persistence of making those changes gets to the root of the teaching intervention. Huy states that, "change actions are primarily entrained to pacers that are outside the organization—external agents' active diagnosis based on their theory of organizational ineffectiveness."¹⁶⁴ There are many instances where an outside activity makes a diagnosis of the Navy: GAO reports, DoD studies, Naval Audit Service investigations, and a major command shipboard inspection. When a report or investigation is complete a list of deficiencies is generated. Success on the next inspection has traditionally been based on correction of past deficiencies. But correction

¹⁶³ Defense Business Transformation Agency, "Case in Point: Transformation Through Lean Six Sigma," available from http://www.defenselink.mil/dbt/cip_six_sigma.html, accessed November 18, 2007.

¹⁶⁴ Huy, 2001, 607.

may not lead to learning. The Navy needs to become a learning organization. While easier said than done, an effort to get to the root of a problem rather than making a cosmetic change is important. Outside agencies can see problems that insiders cannot see. Changing the beliefs of an employee is hard to do. But by getting an employee to become an active participant in the change process, which is different than commanding them to change, will make changes persist. The Navy's business transformation is very similar. The Navy is reacting to outside pressures and many financial managers may not see a need for change. If only the commanding and engineering interventions are used, the changes may not last beyond a change in command or administration. The teaching intervention can cope with this problem by showing employees the broader picture. Understanding how to use new information systems is much different than understanding why new systems are being adopted. If the change makes business sense, and the Navy's business transformation does, then buy-in is established and the potential negative effects of the commanding and engineering interventions are counteracted.¹⁶⁵

A potential side effect to the teaching interventions is that "cognitive change does not always lead to sustained behavioral change."¹⁶⁶ The teaching intervention can be supplemented with the socializing intervention.

D. THE NAVY'S SOCIALIZING INTERVENTION

Socializing efforts in the Navy typically revolve around indoctrination. Socializing in the Navy focuses on culture shifting, adopting a common vocabulary and working as a war fighting team. The change from civilian to uniformed service member through Officer Candidate School or Boot Camp is typical of how the Navy views socialization. Where the teaching method believes that changes in beliefs lead to changes in behavior, the socializing method believes that changes in personal interactions lead to changes in beliefs and organizational culture.¹⁶⁷ The two interventions reinforce one another. Social relationships across all levels of an organization are important because

¹⁶⁵ Huy, 2001.

¹⁶⁶ Ibid, 612.

¹⁶⁷ Ibid, 608.

they create a feeling of continuity and reassure the employee during the apparent chaos of change. The phasing of the social intervention is gradual as it involves change that is not related to a commanding or engineering intervention.

This is one area that a military organization finds difficult to implement. Due to restrictions on fraternization and tiered rank structures, the socializing effort can be hard to maintain. In the case of the Navy's business transformation effort, this socialization is paramount. If the change plan does not trickle down to the lowest level financial manager, or the lowest level of operational command, there is very little hope for buy-in. The plan itself will be viewed as another idea formulated in the Pentagon that has very little bearing on the day to day business practices in the fleet. If reward structures do not change, there will be little buy-in. According to Huy, "change agents using the socializing approach are often self-motivated employees who are distributed throughout all levels of the organization."¹⁶⁸ These employees have 1) bought into the need for change and 2) desire to create the necessary organizational synergy to create the change.¹⁶⁹ Yet, there needs to be supporting structures to create the impetus for creating enterprise-wide buy-in. This type of change intervention can be seen in grassroots efforts across any Navy command; however, they are typically evidenced in easy to understand processes such as engineering or aviation. Motivated senior enlisted personnel have created outstanding change efforts by leading by example and motivating their personnel; this is harder to accomplish in transformation. If the Navy's transformation efforts are to succeed, the department as a whole will have to socialize the change plan down to the lowest levels. When motivated managers and front-line personnel buy into the program, the effects are likely to help the changes persist. The changes will then occur through the process of personal, open and imaginative conversations between the change agents and other personnel.

TQM, TQL and Lean Six Sigma have not had wide-spread buy-in due to insufficient socialization. All are programs that were pushed down from leadership in an effort to make the Navy more business-like. TQM and TQL produced marginal results

¹⁶⁸ Huy, 2001, 608.

¹⁶⁹ Ibid.

and were never widely accepted. Lean Six Sigma is the current management tool that has been adopted by the Navy, yet with the exception of isolated communities, acceptance and application appears lacking. Lean Six Sigma, while providing positive benefits for the Naval Aviation Systems Command, is much like other pilot projects. According to Apte and Kang, “The early results are very promising. As the Lean Six Sigma mindset continues to grow among the DoD community and both the Lean and Six Sigma practices become more commonplace, the equipment and personnel available to the DoD will provide considerable more capability...”¹⁷⁰ Although promising, adoption by all of the Navy enterprises is necessary. Nothing is driving incorporation into daily practice other than a command from leadership.

There are not many programs in the Navy that closely parallel the effective socializing efforts seen in the Corporation. The Navy has created Navy Knowledge online, a portal for sailors to get information and share ideas. This includes community specific information and information on Navy-wide activities. However, it contains little information on business transformation efforts. Information can also be found on the BTA and Navy websites, but many of the documents number in the hundreds of pages and may be difficult for everybody to access. To date most information on Navy transformation efforts has been distributed through All Navy messages. While this effort may help to get key transformation phrases into the vocabulary, it does not socialize the change process, nor does it generate buy-in. If the goal of transformation is to develop an organization’s capabilities, the social structure of relationships also needs to be addressed. This relationship can be on an individual basis or on an organizational level. How BTA, ETP, ERP and the new organizational structures imposed by Navy Enterprise affect how the Navy conducts business (now and in the future) needs to be incorporated into the daily lives of everybody. Those charged with driving the Navy’s transformation efforts need to address how these changes will be socialized so that they are actually incorporated into daily practices.

¹⁷⁰ Uday Apte and Keebom Kang, “Lean Six Sigma for Reduced Life Cycle Costs and Improved Readiness,” Naval Postgraduate School, December 2006.

Historically many in the Navy have desired to get the most money for their command possible and to spend it quickly. Engineering interventions such as Lean Six Sigma projects that are designed to harvest savings by creating more efficient and effective processes will not work if the mindset of the Navy is not changed. A socialized framework of efficient and effective operations needs to spread across the enterprise, not just to areas selected for a Lean Six Sigma project. It needs to become the norm, or true transformation cannot occur.

Tracking progress of the FIAR plan has similarly not been socialized across the enterprise. Progress is tracked by checking completion of specified tasks against a plan of action and milestones, not by how the organization as a whole is making progress towards producing clean financial statements.¹⁷¹ By only tracking completion of a plan, there is no change in the beliefs of personnel or of the lower level commands as a whole, it is seen as something that only affects people sitting in the Pentagon.

There is a beneficial suggestion program for cost-savings initiatives, but there is not a corresponding program for good management.¹⁷² There are similar programs for civilian personnel; these programs are managed by the local Human Resources Office. This creates an incentive for people and commands to create change, to become more effective and efficient. There is not a similar program for commands that receive clean audits on their portion of the financial statements. There are no negatives for failing an audit and no rewards for a clean opinion. The supporting structures do not match the change agenda.

The socializing intervention is a major key to success and persistence of the Navy's business transformation that seems to have been taken for granted at this point in the implementation process. The commanding and engineering interventions are what is driving the effort, but without adding the other two forms of change intervention there

¹⁷¹ Unattributed Source, Navy Office of Budget, interviewed by LCDR Erik Naley, Naval Postgraduate School, October 4, 2007.

¹⁷² Department of the Navy, Office of the Chief of Naval Operations, "Cash Awards for Military Personnel for Suggestions, Inventions, Scientific Achievements and Disclosures," OPNAV Instruction 1650.8D, April 26, 2007.

will likely be little buy in from those who will manage the system in the future or those currently using the legacy systems.

E. TIMING, SEQUENCING AND PACING THE NAVY'S CHANGES

Starting large-scale change with the commanding intervention has proven successful in another government entity. The change efforts in the Navy also started with the commanding intervention in the form of pressures from Congress, the President and DoD. The resulting change efforts have been widely focused on reengineering processes and systems. There is no mention how these changes will be supplemented by teaching or socializing in the Navy's business transformation plan or any transformation document found in this research.

The Navy's current business transformation has been underway since 2002. Although many programs have been implemented to produce incremental results, there was not an overarching trigger that created a great sense of urgency for change. Since a great imperative for change does not exist department-wide, the Navy needs to use teaching and socializing change interventions to ensure that the proposed changes persist. The Corporation had such a trigger, the 2002 ADA violation. Therefore the teaching and socializing interventions are more important for the Navy than they were for the Corporation. This thesis does not propose that the lack of such programs at this point in the process has doomed the effort to failure. Due to the complexities of the Navy and the timeline for accounting information system upgrades, there is time to create the right environment for change to flourish.

In the case of the Navy Enterprise organizational reengineering, buy-in is required. It is necessary that this change in organizational structure be taught and socialized to the operational level and that feedback on its implementation process be sought from all personnel. If the matrix is forced on the existing structure, there will be push back that could derail the entire process

THIS PAGE INTENTIONALLY LEFT BLANK

VI. FINDINGS AND RECOMMENDATIONS

The Corporation is not as large as DoD or DON, but as noted earlier, the Corporation did face many similar financial management problems and has since recovered. The Corporation staff includes both headquarters in Washington, D.C. and in local offices located in each of the 50 states and territories. In fiscal year 2007 the Corporation had budget authority of nearly \$950,000,000 and supported a workforce of volunteers totaling 3,800,000 across all of its programs, though this represents more budgeting and payroll activities than management. The Corporation supports over 70,000 non-profit organizations. While not as extensive as DoD or DON, it can be argued that because it is smaller in size, the business management transformation in the Corporation that took place from 2002 to 2006 can be more easily analyzed. While there may not be a direct correlation in size and scope between the two entities, the change process itself can be applied to the Navy, the time scale is necessarily adjusted in the case of Navy due to larger size and complexity. But the basic principles of change intervention styles and the timing, sequencing and rhythm of those interventions can be applied.

Through the experiences of the Corporation, an entity that faced many similar financial management problems faced by the Navy and recovered, it can be generalized that the processes used to implement that change could work in the Navy. Each intervention style posed in Huy's framework can also be seen in the change process at the Corporation as can the timing, sequencing and pacing of those changes. Due to the nature of government agencies, most changes are driven by external factors and groups that wield coercive power over those agencies, necessitating beginning with a commanding change. This supports Huy's framework for planned change in the case of the Corporation and it can be generalized that it applies to other government agencies.

A. FINDINGS

The research questions this thesis attempted to answer were: (a) what were the financial management, budget and internal control problems that led to the Corporation's

ADA violation and program disruption; (b) what financial management, budget and internal control changes were implemented by the Corporation to correct those problems; (c) what was it about these changes that made them persist; (d) how can these changes be applied to the Navy financial management community to generate similar positive effects?

The Corporation faced many similar problems in financial management, budgeting and internal controls that the Navy faces today. Frequent management turnover tied to administration changes, accounting information systems that are not interlinked and did not provide accurate and timely information for decision makers, internal and management controls that were not effectively formulated, implemented or monitored and a widely dispersed group of field activities in the form of grantees. The Corporation used all four of Huy's intervention styles to correct these problems. Congress and the President demanded management reforms that were implemented and reported back to Congress. Accounting systems were reengineered to provide accurate, timely and reliable information that was useful to decision makers with more upgrades to come. The IG, GAO and NAPA provided useful recommendations for process improvements that were used as teaching aids that changed the beliefs of workers thus creating lasting change. Finally, the change plan was widely socialized throughout the organization ensuring buy-in from management to front-line workers. By sequencing the intervention styles to offset potential negative effects of one by supplementing with another and pacing them such that workers were not overwhelmed, the process was not viewed as the enemy, nor was management.

Congress and the President have commanded that the DoD and the Navy transform its business practices. The Navy has the ability to enact a commanding intervention and is good at doing so. The Navy, by its very nature, is responsive to commanding interventions and has responded to the external pressures exerted on it by creating a business transformation plan. The Navy also tends to adopt reengineering efforts to create more effective and efficient operations by using tools like Lean Six

Sigma. However, while the Navy may be good at training, it should focus more on teaching and socializing its business transformation effort to ensure that the changes are understood, embraced and persist.

The Corporation was also successful in dealing with Congress as it transformed its business practices. By notifying Congress ahead of major events, good or bad, the Corporation was able to generate goodwill and reverse a previously adversarial working relationship. Several of the business transformation reports required of the Navy by Congress are semi-annual or annual. Differences in perspective between Congress and the Navy, institutional conflict between the legislative and executive branches, and differing reporting requirements between Congress and OMB can lead to cynicism for all parties involved.¹⁷³ The efforts of the Corporation to keep stakeholders apprised of all recovery efforts through frequent and direct communication allowed them to focus on real change rather than a combative relationship with Congress. If the Navy were to be more up front with Congress on an informal basis, the Navy too may generate goodwill.

Changing organizational structures and processes necessarily cause stress at the operational level. Many front-line employees to mid-level managers do not understand the business transformation plan and this causes stress and resistance. The most important thing that a leader can do to maximize performance is to, "...creatively, aggressively, and systematically build the capabilities of the company's middle management team..."¹⁷⁴ If the capabilities of middle management are not developed, they can become the "Frozen Middle."¹⁷⁵ If this occurs, any idea or change initiative that leadership desires, middle management would be unwilling or unable to carry out.¹⁷⁶ To counteract this side effect the Navy should treat business transformation education and socialization with the same vigor that is applied to joint education. If there is a concern at

¹⁷³ Beryl A. Radin, Challenging the Performance Movement: Accountability Complexity and Democratic Values, Georgetown University Press: Washington D.C., 2006.

¹⁷⁴ Jonathon L. S. Byrnes, "Middle Management Excellence," Harvard Business School: Working Knowledge for Business Leaders, available from www.hbswk.hbs.edu/archive/5126.html, accessed, October 31, 2007, 1.

¹⁷⁵ Ibid, 1.

¹⁷⁶ Ibid.

any level that the transformation plan is a fad or will become obsolete with a change in administration, then the plan itself has less of a chance to succeed. Leadership needs to stand behind its plan and get buy-in from every level of the Navy. Communication of the Navy's plan seems like it has hit a bottleneck and has not filtered down to those who will be charged with implementing and managing the new systems once they come on line.

The one aspect of the commanding intervention that differs significantly between the Corporation and the Navy is a sense of urgency at all levels. Kotter states that well over 50 percent of all change efforts fail in this first phase because senior leadership often fails to recognize how difficult it is to drive people out of their comfort zones.¹⁷⁷ The Corporation experienced a singular, defining event that triggered their transformation efforts, the 2002 ADA violation. This event had the potential to completely end the program, and it almost did. If not for the efforts of a handful of members of Congress and the President, the Corporation may not have been reauthorized. The Navy is expected to exist by the Constitution; the chances of shoddy financial management affecting the very existence of the Navy are slim. However, there may be financial triggers in the near future that will create this sense of urgency at the lowest levels of the Navy. Increasing mandatory spending, returning to baseline budgeting versus supplemental appropriations, rising personnel costs and the need to replace the existing inventory of ships and aircraft with more expensive future systems all may decrease the Navy's portion of the President's budget while it becomes more costly to operate. With this potential crisis looming, the leadership will need to establish this sense of urgency linked to its commanding intervention. Other change intervention styles may aid in this process.

B. RECOMMENDATIONS

For the Navy's business transformation effort to be successful, significant teaching and socializing interventions need to be incorporated and sequenced such that there is buy in at all levels of the organization before a major change occurs or system is brought online.

¹⁷⁷ Kotter, 2007.

Recommendations for teaching interventions include the following:

1. Creating a general military training module that is focused on the broad aspects of the business transformation plan.
2. Creating a mandatory education program similar in scope to joint professional military education tailored towards business transformation for both military and civilian Navy financial managers.
3. Creating a mobile training team that teaches and solicits feedback.
4. Creating a working environment that is more concerned with learning than merely correcting deficiencies to change beliefs instead of inspection scores. This requires continuous improvement rather than cosmetic improvements to pass an inspection.

The teaching intervention requires a commitment up front to ensure future success. As seen in the Corporation, front-line workers were actively involved in the change process and had contact with the change agents (the MIT). Everyone at the Corporation also understood the transformation goals and timelines through regular newsletters and intranet sites. Similar methods could be effective in the Navy. The current effort seems focused on Flag and Captain level officers through executive education. Making education available to mid-level officers through required professional education or through General Military Training, with current progress updates could generate positive feedback loops that will help make the proposed changes persist. The same type of program could be applied to civil-service civilian employees. If it is a DoD-wide goal to transform business practices to better support the war fighter, just as it is to create an interoperable joint force, then equal weight should be given to business transformation as is to joint education. The Navy could also create a mobile training team of business transformation efforts to actively reach out to commands through town hall style forums to sell the plan and solicit feedback. The goal of these forums being to break the tacit, shared assumptions that are likely to derail the change process. From the perspective of a mid-level officer, the current plan is too complex to understand and too ambiguous for them to cause any positive effect.

Recommendations for the socializing interventions include the following:

1. Creating a cadre of embedded financial management transformation experts that create synergy at the operational level and above by generating buy-in for the change process.
2. Establishing a collaboration portal on the Navy Knowledge Online website to answer questions and concerns and solicit feedback.
3. Utilizing really simple syndication (RSS) feeds and desktop transformation dashboard widgets that provide news and updates,
4. Creating an enterprise-wide cross-functional working group to ensure that transformation efforts are not stove-piped.
4. Changing reward and incentive structures.

Through tools like those described above, the Navy could get the message of transformation out to the entire enterprise. These tools could help socialize the change effort and use technology to leverage the effort. To put the plan on the desktop of a person's computer, rather than making him/her search for the information on many disparate web sites, should help get information out into the enterprise.

While it may seem that the socializing change is out of the hands of senior leadership, that is not the case. The socializing intervention supports and supplements the other intervention styles. The Navy could, in conjunction with town hall forums, solicit volunteers to learn more about the process, much like black and green belts are trained in the engineering interventions. This team of business transformation experts could then go back to their commands and guide the change process at the lowest levels. This will provide all personnel the opportunity to determine that the change is not short-term and opportunistic, but rather something that will improve their quality of life and the quality of the organization. Another method seen in the Corporation was to create arenas for management and employees to collaborate on the change process and for front-line workers to provide instantaneous feedback. This could be achieved in the Navy by adding a monitored portal on the Navy Knowledge Online website, allowing personnel to post comments, questions and suggestions and having a subject matter expert provide a timely response. Creating enterprise-wide town-hall meeting with senior officials and

publishing a transformation newsletter similar to “Rhumb Lines” would help to socialize the Navy’s agenda. Another solution could be to create cross-functional and cross-command working groups to share information horizontally across the enterprise. If change efforts are being tracked only by crossing off goals on a plan of actions and milestones, the end result will be that only one office knows the whole picture. The horizontal integration desired by Navy Enterprise will not occur as organizations will not collaborate to achieve enterprise-wide goals.

By combining the teaching and socializing interventions recommended above and sequencing them such that they occur before major systems are brought online or future re-organizations occur it is more likely that the changes will be well received at all levels. It is not enough to build accounting information systems that move information. Managers need to know how to use that information, decision processes should also change. As the capabilities then become known, demand for information will increase, reinforcing the engineering changes.

An education program for mid-level managers should be established quickly to ensure that there is time to exploit the reengineering efforts. Concurrently, a mobile training team should be created to spread the word about Navy business transformation and create an imperative for change. The Navy has a plan in place that resolves many of the technical business system problems faced by financial managers, but needs to ensure that the social problems are also addressed. That is, ensure that the organization is ready and accepting. The time for abrupt changes has passed; it is time for the Navy to solidify its transformation effort with teaching and socializing interventions that will span the life of the engineering changes.

C. AREAS FOR FUTURE RESEARCH

One limitation of this thesis was that it used the case method with only one source of data. By examining other government agencies that have effected positive change using Huy’s model it will further validate the framework and possibly provide further insights into what makes change persist in government entities. Due to time limitations, this thesis did not attempt to conduct a survey on Naval personnel to determine how

socialized the business transformation effort is, the position that it is not well socialized is based on informal conversations with financial management students at the Naval Postgraduate School and feedback from advisors who routinely work with the Navy's business managers. Understanding how well the business transformation effort has actually been socialized will help decision-makers develop a plan to teach and socialize the plan.

APPENDIX A

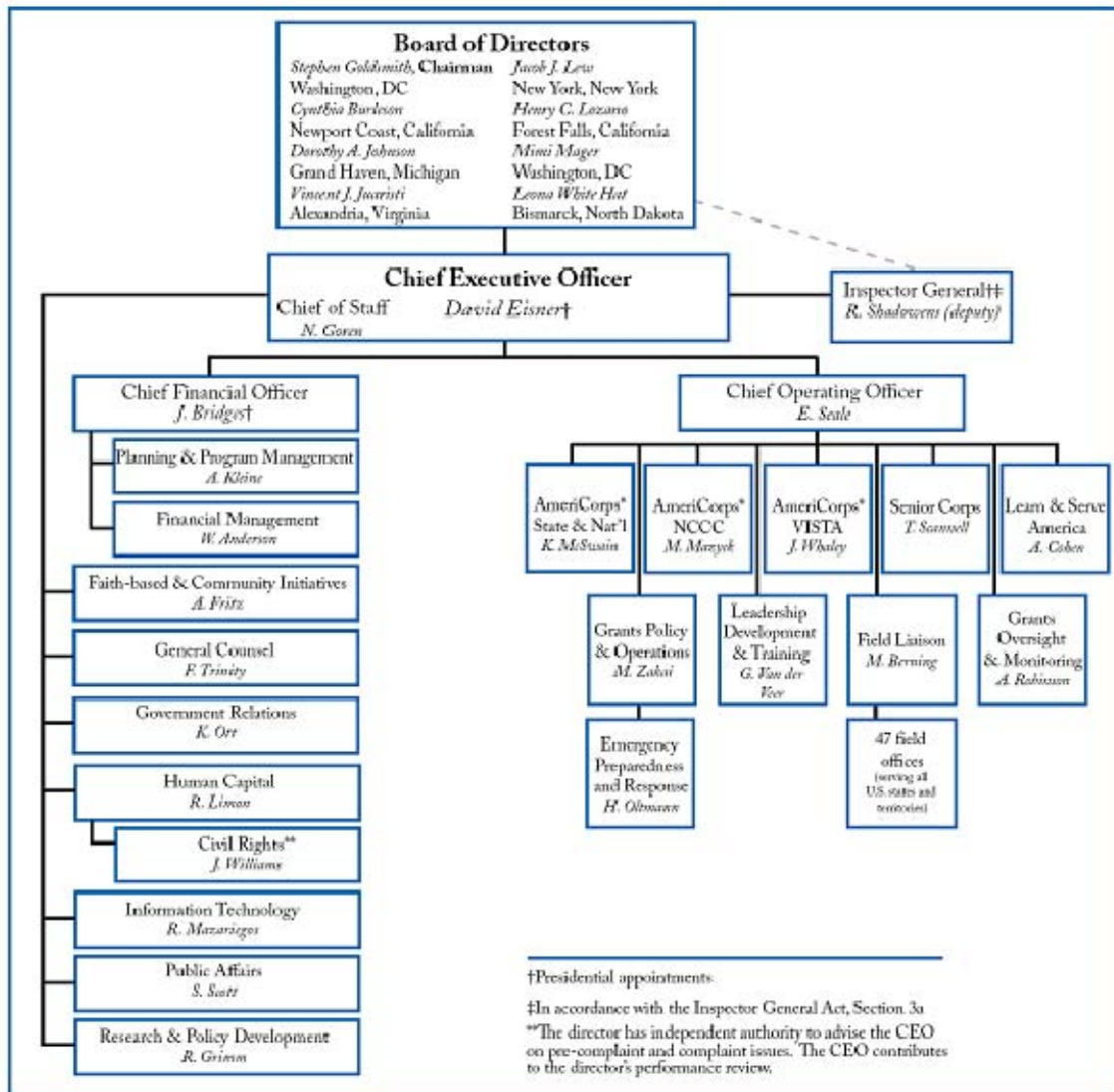
Each Corporation Program's Contribution to the Strategic Goals

CORPORATION PROGRAM	STRATEGIC GOAL		
	Meet critical needs in local communities through service	Strengthen communities to engage citizens	Engage Americans in a lifetime of volunteering and service
Learn and Serve America	Engages young people in service projects to help their schools and communities	Strengthens the commitment to service in the Nation's schools by integrating service into the curriculum	Builds an ethic of service in young people, helping to ensure the American people continue to honor their responsibilities to their neighbors and communities
AmeriCorps [AmeriCorps*National Civilian Community Corps (NCCC); AmeriCorps*State and National; and AmeriCorps*Volunteers in Service to America (VISTA)]	NCCC Assists communities with special projects and mobilizes quickly to provide disaster relief State and National Provides a wide range of direct services to the Nation's neediest citizens and communities VISTA Provides direct services, as well as support to nonprofit organizations to help fight poverty	NCCC Brings communities together around improvement and renewal projects, helping to establish lasting partnerships and coalitions to meet community needs State and National Leverages community volunteers by providing volunteer recruitment and management support to community organizations VISTA Builds the capacity of nonprofit organizations by assisting with fund-raising, promoting donations of goods and services, recruiting and managing volunteers and improving project operations and effectiveness	NCCC Provides a team-based, residential service experience that builds members' life and job skills, as well as the motivation to continue in public service State and National Encourages lifelong community service by showing members they can make a difference VISTA Encourages lifelong community service by showing members they can make a difference and training members in nonprofit and volunteer management
Senior Corps [Retired and Senior Volunteer Program (RSVP); Foster Grandparent Program (FGP); and Senior Companion Program (SCP)]	RSVP Provides a wide range of direct services to the Nation's neediest citizens and communities FGP Provides mentoring and other support to children with exceptional needs SCP Provides support services to frail and elderly adults to enable them to continue living independently	RSVP, FGP, and SCP Build the capacity of nonprofit organizations to serve additional people, expand services offered and/or improve service effectiveness	RSVP, FGP, and SCP Encourage community service among seniors by providing rewarding volunteer opportunities and significant health and social benefits to the volunteer; RSVP also leverages additional volunteers

Source: The Corporation's FY 2005 PAR

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B



Source: The Corporation's FY 2006 PAR

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

[illegible]

17. 2000年10月1日起，凡在我国境内销售货物的单位和个人，均应按销售额的17%缴纳增值税。

United States Senate

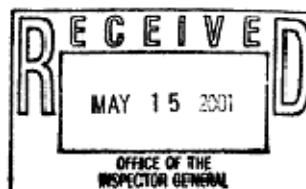
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-8025

*ADP female box = 1000 counts/ms

May 10, 2001

The Honorable Luise Jordan
Inspector General
Corporation for National Service
2101 New York Avenue, NW
Washington, DC 20525

Dear Ms. Jordan:



The President's Fiscal Year 2002 Budget requests no funding for AmeriCorps member education awards. This contrasts with funding requests for the Trust Fund in previous years that ranged from \$70 to \$90 million.


The Corporation for National Service's budget submission states that no new authority is required in fiscal year 2002 for the Trust Fund costs associated with new AmeriCorps members because of changes to policies and estimating procedures. And in testimony during our Subcommittee hearing on April 25, 2001, the Corporation's Acting CEO, Ms. Wendy Zenker and Deputy CFO Bill Anderson described a change in the method of estimating the Trust's funding requests. However, questions remain as to whether or not the fiscal year 2002 request adequately provides for awards that AmeriCorps members will earn.


We request that you review the Corporation's methodology for calculating the FY 2002 Trust Fund budget authority request and the detailed documentation and analysis that supports the decision to request no additional funding for program year 2002 service. Please include in your response any advice you may have as to the propriety of the methodology and the potential impact on the Trust Fund of zero funding in FY 2002 for AmeriCorps member service awards.

Please respond to this request by the close of business, June 7, 2001. If you have any questions regarding this request, please contact our Subcommittee staff, Cheh Kim at 202-224-7858 and Gabrielle Batkin at 202-224-3106.

Thank you for your assistance in this matter.

Sincerely,


Christopher S. "Kit" Bond
Chairman, Subcommittee on VA,
HUD, and Independent Agencies


Barbara A. Mikulski
Ranking Member, Subcommittee on V.A.,
HUD and Independent Agencies

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX D

Nov-20-02 11:47A

ROBERT C. BYRD, WEST VIRGINIA, CHAIRMAN

SPENCE E. ENDRUP, HAWAII
 LORNE F. HOLLOMAN, SOUTH CAROLINA
 PATRICK J. LEAHY, VERMONT
 TOM HARKIN, IOWA
 BARBARA A. MIKULSKI, MARYLAND
 HARRY REID, NEVADA
 HERB KOHL, WISCONSIN
 PATTY MURRAY, WASHINGTON
 BYRON D. BORGAN, NORTH DAKOTA
 CLAYNE FRINGILIN, CALIFORNIA
 RICHARD J. DURBIN, ILLINOIS
 TIM JOHNSON, SOUTH DAKOTA
 PAUL L. LAHART, ILLINOIS
 JACK REED, RHODE ISLAND

TED STEVENS, ALASKA
 THAD COCHRAN, MISSISSIPPI
 ARLEN SPECTER, PENNSYLVANIA
 JEFF V. CRAMER, NEW MEXICO
 JAMES H. HATCH, MISSOURI
 MATT MCCONNELL, KENTUCKY
 CONRAD BURNS, MONTANA
 RICHARD C. SHELLEY, ALABAMA
 JUD CRAPPE, NEW HAMPSHIRE
 ROBERT F. WELCH, UTAH
 BEN NELSON, COLORADO
 KERRY CRANE, IDAHO
 KAY HATCH, UTAH
 MIKE DEWINE, OHIO

FRANCIS GAVRAN, STAFF DIRECTOR
 STEVEN J. CORTESE, MINORITY STAFF DIRECTOR

United States Senate
 COMMITTEE ON APPROPRIATIONS
 WASHINGTON, DC 20510-8025
 www.senate.gov/appropriations

November 20, 2002

The Honorable J. Russell George
 Inspector General
 Corporation for National and Community Service
 1201 New York Avenue, NW
 Washington, D.C. 20525

Dear Mr. George:

By this letter, I request you to investigate and audit immediately the Corporation for National and Community Service's (CNCS) management and oversight of the National Service Trust. By statute, the Corporation is required to ensure that the Trust maintains sufficient funds to pay for education awards earned by participants who complete a term of service in the AmeriCorps program. The Trust consists of appropriated funds from the VA-HUD and Independent Agencies Appropriations Subcommittee, interest earned, and proceeds from the sale or redemption of Trust investments.

The Corporation recently informed my staff that the Trust lacks adequate funds to meet its liabilities due to an over-enrollment of AmeriCorps members into the program. The Corporation estimates that in program year 2001, it exceeded its target enrollment level of 50,000 by around 8,000 members. In addition, it expects to exceed its target level for program year 2002 by similar numbers. Due to these estimated over-enrollments, the Corporation faces a shortfall of some \$50 million in the Trust to meet its outstanding liabilities. This shortfall may represent a violation of the Anti-Deficiency Act, since it appears that the Corporation created more liabilities than it budgeted for.

Due to these findings, I request the Office of Inspector General determine the causes for the over-enrollment and provide recommendations to prevent this problem from recurring. I am especially interested in the adequacy of the Corporation's financial management and grants management systems. Furthermore, please identify the staff and managers who are responsible for managing, administering, and monitoring its AmeriCorps program enrollment and budgeting.

Due to the seriousness of this matter, I have also made a separate request to the General Accounting Office (GAO) to review the National Service Trust. I would appreciate your cooperation and coordination with the GAO.

Thank you for your response to this request. If you have any questions or concerns, please have your staff contact Cheri Kim of the VA-HUD Appropriations Subcommittee staff at 202-224-7858.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written over a horizontal line.

Christopher S. Bond
Ranking Member
VA, HUD & Independent Agencies
Appropriations Subcommittee

Source: Office of the Inspector General Report OIG 03-007

APPENDIX E

BARBARA A. MIKULSKI
MARYLAND

United States Senate WASHINGTON, DC 20510-2003

June 20, 2003

The President
The White House
Washington, DC 20500

Dear Mr. President:

I know you share my strong support for AmeriCorps and national service. Yet we are facing a crisis that threatens the future of the program, the volunteers – and communities across the nation. Yesterday the Senate took action to stabilize this program. But your quick intervention is necessary. Support for AmeriCorps is bipartisan, and it needs Presidential leadership to get it on course. I hope you will take the following steps to strengthen AmeriCorps for the future:

- Request Supplemental Funding -- Without additional funding this year, AmeriCorps will not be able to support more than 50,000 volunteers. This includes the 20,000 that the Corporation overenrolled last year. AmeriCorps needs your leadership to request supplemental funding to prevent real cuts this year.
- Fill Vacancies on the Board of Directors -- The Corporation's Board of Directors has important oversight responsibilities, and is stepping up to meet the current challenges. Yet the Board has been functioning without full membership for too long. Currently, there are nine Board members, with six vacancies. I hope you will act quickly to fill the vacancies and work to move those nominations through the Senate.
- Appoint Strong Leadership -- I have asked the Corporation's Chief Executive Officer to submit his resignation to you. I hope you will appoint a new leadership team with the management skills necessary to restore confidence in the Corporation's abilities to make a real difference to our volunteers – and in our communities. The Corporation's mismanagement and lack of responsible accounting standards will result in fewer new volunteers this year, and we need leaders at the Corporation who understand that there are costs to mistakes of that magnitude.

Thank you for your attention to these important issues. I look forward to working with you to strengthen AmeriCorps for the future.

Sincerely,



Barbara A. Mikulski
Ranking Member
Subcommittee on VA, HUD, and Independent
Agencies

Source: Office of the Inspector General Report OIG 03-007

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX F

MEMORANDUM

FROM: Leslie Lenkowsky
Chief Executive Officer

DATE: January 7, 2003

RE: Summary of New Enrollment Procedures

Today, the 108th Congress is convening and we are optimistic that it will take action that will enable us to end the pause on AmeriCorps enrollments. We will let you know when that occurs.

In order to correct the problems that led to the pause, the Corporation is implementing a set of new procedures for awarding AmeriCorps grants and monitoring AmeriCorps enrollments. A summary of these procedures is attached. Our goal in adopting these new procedures is to ensure we have timely reporting and tracking of member enrollments, thereby enhancing our ability to forecast enrollment and avoid another pause in the future.

Although these procedures will chiefly affect how the Corporation's Washington, D.C. headquarters staff operates, I want to call your attention to one that will directly affect all of the Corporation's AmeriCorps grantees.

One of the new procedures (see AMERICORPS #4) will establish new requirements for timely reporting of actual AmeriCorps enrollments by grantee programs. Once a program year has begun and throughout the year, we must regularly track whether or not the enrollment projections, on which the budget for the National Service Trust is based, are accurate. The Director of AmeriCorps will soon be announcing new enrollment procedures designed to allow us to forecast demand and monitor actual enrollments throughout the program year. These procedures will be effective as soon as we are able to end the pause.

As always, thank you very much for your partnership in our ongoing effort to expand and enhance opportunities to meet vital community needs through national service.

New Procedures

The Chief Executive Officer (CEO) of the Corporation for National and Community Service (Corporation) has directed that the following new procedures will go into effect immediately with regard to the AmeriCorps program:

AMERICORPS

1. All program officer recommendations for Federal obligations in the AmeriCorps program (National and State (N&S), NCCC, and VISTA) shall be accompanied by projections of the number of AmeriCorps positions that would result if the grant awards are made.
2. The Director of AmeriCorps shall tally and compare those projections with the number of positions that were agreed upon with the Chief Financial Officer (CFO) prior to the award process, not to exceed the budgeted level supported by actual appropriations for the year in which awards will be made (see CFO items 1 and 2). This tally and comparison will occur before submission to the CEO for approval.
3. The Director of AmeriCorps shall report monthly to the CEO and CFO. No positions will be approved that exceed the amount budgeted, justified, and supportable through program and trust budgets for the program year, plus a contingency reserve based on a conservative estimate of fill-rates.
4. The Director of AmeriCorps will develop procedures for earlier reporting of actual enrollments to Corporation headquarters and will clarify for grantees the steps that constitute an enrollment (and thereby a Federal obligation) before lifting the AmeriCorps enrollment pause.
5. The Director of AmeriCorps shall report bi-weekly to the CEO and CFO on the number of approved program slots actually filled, specifying by program (NCCC, N&S, VISTA) and type of placement (full-time, part-time, reduced part-time). In the event enrollment differs from projected figures, the Director of AmeriCorps may request changes in approved slots during program year, subject to approval of the CEO, but in no case to exceed the number of positions supportable through appropriations for AmeriCorps grants and the Trust.
6. All AmeriCorps grants (with approved enrollment numbers), including continuations, shall be subject to approval by the CEO, after consultation with the CFO.

7. The CEO will establish new procedures to ensure that the Corporation properly records National Service Trust Fund “obligations,” i.e., the maximum legal liability of the Trust Fund. These obligations shall be reported on a quarterly basis in financial reports to the United States Treasury and appear in all relevant budgetary documents produced by the Corporation.

CHIEF FINANCIAL OFFICER

1. In developing budget requests for transmittal to Office of Management and Budget (OMB), the CFO shall use the proposed number of AmeriCorps positions to be filled as the basis for amounts to be requested for the Trust, using the updated forecasting model, revised as necessary (and with a contingency reserve for unanticipated developments). An analysis of the Trust model’s methodology for projecting Federal obligations and budgetary resource requirements for Education Awards will accompany the Budget submission. Based on Congressional action, the CFO will transmit the budgeted number of AmeriCorps positions to the AmeriCorps Director prior to approval of any AmeriCorps commitments considered by the CEO in the approval cycle.
2. The CFO and Director of AmeriCorps will meet prior to each grant review and approval cycle and determine the appropriate number of Education Awards and program funds to be considered by the CEO in the approval cycle.
3. The Director of the National Service Trust shall monitor the number of enrollments in AmeriCorps throughout the program year, reporting bi-weekly to the CEO, CFO, and AmeriCorps Director, disaggregating by program and type of placement. The Director of the Trust shall also continuously monitor other factors relevant to the model for forecasting Trust liabilities (such as award usage and interest rates) and report regularly to the CFO, highlighting any deviations from assumptions in the model. The CFO shall establish a threshold for determining when deviations are significant enough to warrant updating of forecasts.
4. Each month, the CFO shall use actual enrollment data (and data for other relevant parameters, such as award usage rates and interest rates) to re-estimate the model for forecasting Trust liabilities. The CFO shall notify the CEO and AmeriCorps Director immediately if such re-estimate indicates a need to change enrollment targets (up or down) for the program year in order to ensure that obligations do not exceed available appropriations. The CEO will take appropriate action within one week of

such notification and report any such action to Congress, the Corporation's Board, and OMB.

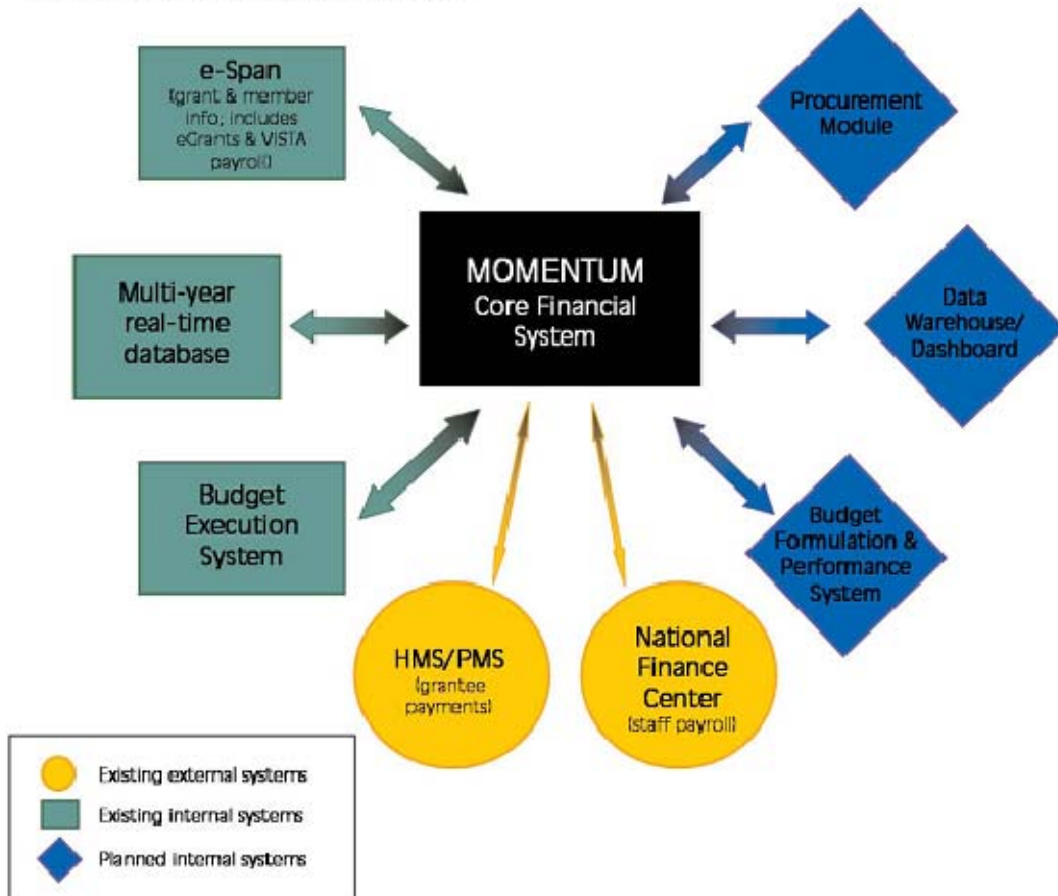
5. The CFO and Director of AmeriCorps will meet at least monthly to reconcile any discrepancies in actual enrollment figures between WBRS (the AmeriCorps data base) and SPANS (the Trust data base.)
6. All AmeriCorps grant awards shall be subject to review by the CFO.

Effective January 7, 2003

Source: The Corporation for National and Community Service Website

APPENDIX G

Targeted Financial Management System Structure



Source: The Corporation's FY 2004 PAR

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF REFERENCES

42 U.S.C. §§ 12501-681 (2003).

Amis, Slack, and Hinings, “The Pace, Sequence, and Linearity of Radical Change,” *Academy of Management Journal*, 47 (1), February 2004.

Apte, Uday and Kang, Keebom, “Lean Six Sigma for Reduced Life Cycle Costs and Improved Readiness,” Naval Postgraduate School, December 2006.

Business Transformation Agency, “Case in Point: Sea Enterprise,” available from http://www.defenselink.mil/dbt/cip_sea-enterprise.html (accessed September 18, 2007).

Business Transformation Agency, “FAQs—The BTA,” available from <http://www.dod.mil/bta> (accessed September 18, 2007).

Byrnes, Jonathon L. S., “Middle Management Excellence,” Harvard Business School: Working Knowledge for Business Leaders, available from www.hbswk.hbs.edu/archive/5126.html, (accessed, October 31, 2007).

Candrea, Philip J., “National Service Trust: A Case Study,” Naval Postgraduate School. July 2004.

Clark, Vern, “Sea Power 21: Projecting Decisive Joint Capabilities,” Proceedings October 2002, available from <http://www.navy.mil/navydata/cno/proceedings.html> (accessed September 18, 2007).

Corporation for National and Community Service, “Administrative Control of Funds,” Policy Number CFO-06-001, October 1, 2006.

Corporation for National and Community Service, “AmeriCorps Member Handbook (September 1997)” available from <http://www.nationalservice.org> (accessed September 01, 2007).

Corporation for National and Community Service, “AmeriCorps Member Handbook: Getting Started (2007)” available from <http://www.nationalservice.org> (accessed September 01, 2007).

Corporation for National and Community Service, Fiscal 2002 Budget Estimate and Performance Plan, April 2001 available from <http://www.nationalservice.org> (accessed August 07, 2007).

- Corporation for National and Community Service, "CEO Message on the 2004 Performance and Accountability Report," press release, Wednesday, November 24, 2004, available from www.nationalservice.org/about/newsroom/index.asp (accessed August 11, 2007).
- Corporation for National and Community Service, "Minutes of the Board of Directors Meeting", February 10, 2004, available from http://www.nationalservice.org/about/role_impact/organization_board.asp (accessed August 15, 2007).
- Corporation for National and Community Service, "National Service Agency Undertakes Comprehensive Effort to Strengthen Management," press release, September 15, 2003, available from www.nationalservice.org/about/newsroom/index.asp (accessed August 10, 2007).
- Corporation for National and Community Service, Office of the Inspector General, "The National Service Trust: Internal Control Weaknesses Cause an Anti-Deficiency Act Violation at the Corporation for National and Community Service," OIG Report 03-007, available from <http://www.nationalservice.org/about/oig/index.asp> (accessed May 12, 2007).
- Corporation for National and Community Service, "Performance and Accountability Report," Fiscal Year 2003, from http://www.nationalservice.org/about/role_impact/performance.asp (accessed August 28, 2007).
- Corporation for National and Community Service, Performance and Accountability Report, Fiscal Year 2006 available from <http://www.nationalservice.org> (accessed August 15, 2007).
- Corporation for National and Community Service, "Preliminary Blueprint for Management Excellence: A Progress Report on CNCS Management Improvements and Plans," February 5, 2004.
- Corporation for National and Community Service, Office of the Inspector General, "Response to the Subcommittee on VA, HUD, and Independent Agencies' Request for Review of the Corporation for National Services' Fiscal Year 2002 Funding Request for the National Service Trust Fund", OIG Audit Report No. 01-49, available from <http://www.nationalservice.org/about/oig/index.asp> (accessed June 15, 2007).
- Corporation for National and Community Service, "Strategic Plan: 2006-2011," available from http://www.nationalservice.org/about/focus_areas/index.asp (accessed September 01, 2007).

- Corporation for National and Community Service, "Written Testimony Before the House Appropriations Subcommittee on Veterans Affairs, Housing and Urban Development, and Independent Agencies," Wednesday, March 24, 2004, available from www.nationalservice.org/about/newsroom/index.asp (accessed August 18, 2007).
- Damanpour and Wischnevsky, "Research on Innovation in Organizations: Distinguishing Innovation-Generating from Innovation-Adopting Organizations," *Journal of Engineering and Technology Management*, 23 (4), December 2006.
- Department of Defense, "2007 Enterprise Transition Plan: ETP," September 28, 2007, available from http://www.dod.mil/dbt/products/2007_BEA_ETP/ETP.html (accessed October 2, 2007).
- Department of Defense, "Financial Improvement and Audit Readiness Plan," September 30, 2006, available from http://www.defenselink.mil/comptroller/FIAR/documents/FIAR_Plan_Sept_2006.pdf (accessed September 25, 2007).
- Department of the Navy, Office of the Chief of Naval Operations, "Cash Awards for Military Personnel for Suggestions, Inventions, Scientific Achievements and Disclosures," OPNAV Instruction 1650.8D, April 26, 2007.
- Euske, Kenneth, "Planned Intervention Modes: The Experiences of an Armed Forces Organization: Theory of Planned Intervention Modes." Paper presented at the Naval Postgraduate School, Management Control Systems, Spring 2007.
- Executive Order 13331 of February 27, 2004, available from <http://www.archives.gov/federal-register/executive-orders/2004.html> (accessed August 17, 2007).
- Francis, D. and Walther, R., "A Comparative History of Department of Defense Management Reform from 1947 to 2005," MBA Professional Project, Naval Postgraduate School, Monterey, CA, December 2006.
- Government Accountability Office, "Antideficiency Act Background," available from <http://www.gao.gov/ada/antideficiency.htm> (accessed August 3, 2007).
- Government Accountability Office, "A Comprehensive Plan, Integrated Leadership, and Sustained Effort Are Needed to Assure Success," GAO-07-229T, available from <http://www.gao.gov> (accessed September 01, 2007).
- Government Accountability Office, "Corporation for National and Community Service: Better Internal Control and Revised Management Practices Would Improve the Management of AmeriCorps and the National Service Trust", GAO Report GAO-04-225, available from <http://www.gao.gov> (accessed May 07, 2007).

- Government Accountability Office, “Foundational Steps Being Taken to Manage DOD Business Systems Modernizations, but Much Remains to be Accomplished to Effect True Business Transformation,” GAO-06-234T, available from <http://www.gao.gov> (accessed September 01, 2007).
- Government Accountability Office, “Further Actions are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges,” GAO-05-140T, available from www.gao.gov. (accessed November 16, 2007).
- Government Accountability Office, “Key Elements Needed to Successfully Transform DOD Business Operations,” GAO-05-629T, available from <http://www.gao.gov> (accessed September 01, 2007).
- Government Accountability Office, Legal opinion from Anthony H. Gamboa, General Counsel, Government Accountability Office, to the Honorable Christopher S. Bond and the Honorable Barbara A. Mikulski, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate available from www.nationalservice.org/about/oig/index.asp (accessed May 15, 2007).
- Government Accountability Office, “Navy ERP Adherence to Best Business Practices Critical to Avoid Past Failures,” GAO report GAO-05-858, available from <http://www.gao.gov> (accessed October 12, 2007).
- Government Accountability Office, “Organizational Culture: Use of Training to Help Change DoD Inventory Management Culture,” GAO/NSAID-94-193, available from www.gao.gov. (accessed November 16, 2007).
- Government Accountability Office, “Sustained Leadership is Critical to Effective Financial and Business Management Transformation,” GAO-06-1006T, available from <http://www.gao.gov> (accessed September 01, 2007).
- Huy, Quy Nguyen, “Time, Temporal Capability, and Planned Change,” *The Academy of Management Review*, October 2001; 26, 4.
- Huy and Mintzberg, “The Rhythm of Change,” *MIT Sloan Management Review*, 44 (4), Summer 2003.
- Kotter, John P., “Leading Change: Why Transformation Efforts Fail,” *Harvard Business Review* Vol. 85 Issue 1, available from <http://web.ebscohost.com/ehost/detail?vid=1&hid=14&sid=f5d05dd9-f6f5-4367-9f55-a32814a15ba2%40SRCSM2> (accessed September 25, 2007).
- McCaffery, Jerry and Jones, L.R., *Budgeting and Financial Management for National Defense*, Greenwich, CT: Information Age Publishing, 2004.

- Miller, Jason., "An Analysis of the Sea Enterprise Program," MBA Thesis, Naval Postgraduate School, Monterey, CA, June 2005.
- National Academy of Public Administration, "The Corporation for National and Community Service: Building a Foundation for the Future". Academy Project Number 2044-000.
- Pries-Heje and Vinter, "A Framework for Selecting Change Strategies in IT Organizations," Lecture Notes in Computer Science 4034, 2006.
- Pries-Heje, "eGovernment and Structural Reform on Bornholm: A Case Study," Lecture Notes in Computer Science 3591, 2005.
- Public Law 108-45.
- Radin, Beryl A., Challenging the Performance Movement: Accountability Complexity and Democratic Values, Washington D.C.: Georgetown University Press, 2006.
- Under Secretary of Defense (Comptroller), "Update on Financial Improvement and Audit Readiness Activities," Memorandum, July 13, 2007, available from <http://www.dod.mil> (accessed September 15, 2007).
- U.S. Congress. House. Letter from the Honorable Barbara A. Mikulski, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate, to the President of the United States. June 20, 2003.
- U.S. Congress. House. Letter from the Honorable Christopher S. Bond and the Honorable Barbara A. Mikulski, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate, to the Honorable Luise Jordan, Inspector General, Corporation for National and Community Service. May 10, 2001.
- Yin, Robert, Case Study Research, Third Edition, Volume 5, Thousand Oaks, CA: Sage Publications, 2004.

THIS PAGE INTENTIONALLY LEFT BLANK

INITIAL DISTRIBUTION LIST

1. Defense Technical Information Center
Ft. Belvoir, Virginia
2. Dudley Knox Library
Naval Postgraduate School
Monterey, California